



**AUDIT REPORT  
ON  
THE ACCOUNTS OF  
CDA, CAA, NHA, PAK. PWD,  
ESTATE OFFICE, FGEHF, NCL, PHAF,  
ETPB, FRONTIER CORPS,  
PAKISTAN RANGERS,  
HEC, WWF/BOARDS AND PM&DC**

**GOVERNMENT OF PAKISTAN  
AUDIT YEAR 2015-16**

**AUDITOR GENERAL OF PAKISTAN**





2.4.11	Irregular disbursement of pension through Post Office instead of bank account - Rs 4,567.78 million.....	25
2.4.12	Irregular allotment of commercial plot through collusion - Rs 1,071.99 million.....	26
2.4.13	Unjustified advance payment to the oil companies and non-adjustment through vouched account - Rs 407.10 million.....	27
2.4.14	Undue allotment of agro-farm causing loss to Authority - Rs 140.00 million.....	29
2.4.15	Undue/Unauthorized allotment of 44 plots to affectees of Bekha Syedan without verification/completion of essential formalities.....	30
2.4.16	Irregularities in construction of Safa Gold Mall, F-7 Markaz, Islamabad .....	31
2.4.17	Unjustified payment of Session Allowance and Diet Charges - Rs 57.07 million.....	34
2.4.18	Irregular award of works without calling tenders - Rs 52.87 million.....	36
2.4.19	Loss to Government due to non-deposit of revenue/profit in Government Account - Rs 49.29 million.....	38
2.4.20	Unjustified payment due to execution of costly item beyond the provision of TS estimate - Rs 45.05 million .....	39
2.4.21	Loss due to imprudent reduction in highest declared bid after signing of agreement through post-bid change - Rs 40.00 million.....	41
2.4.22	Loss due to non-auction of entry ticket of Lake View Park - Rs 11.15 million.....	42
2.4.23	Loss to CDA due to non-crediting of profit by GPO Islamabad on Saving Bank Account - Rs 9.64 million.....	43
2.4.24	Mis-procurement without evaluation of single bid - Rs 8.85 million .....	44
2.4.25	Loss due to award of work at higher rates through re-tendering - Rs 6.46 million.....	46
2.4.26	Award of contract for procurement of medical equipment without proper evaluation / analysis of rates - Rs 5.50 million.....	47
2.4.27	Non-availability of safe/potable drinking water due to award of contract to unsuitable contractor at unbalanced rates - Rs 2.70 million.....	48
2.4.28	Leasing out Monal Restaurant Pir Sohawa Islamabad without open auction and non-recovery of property tax from the lessee - Rs 1.96 million.....	51
2.4.29	Unauthentic appointments in violation of CDA Service Regulations 1992 & Non-verification of Degrees & Educational Certificates of CDA employees from Universities / Boards.....	52
2.4.30	Irregular/Unauthentic regularization of 1,569 daily wagers and 32 officers without fulfillment of prescribed criteria of experience and qualification .....	54
	<b>Performance</b> .....	55
2.4.31	Non-removal of encroachment/unauthorized construction from the CDA land valuing billions of rupees.....	55
2.4.32	Encroachment on 40 kanals of CDA land - Rs 10,000.00 million .....	57
2.4.33	Unauthorized/illegal occupation of Centaurus Shopping Mall F-8/G-8 Islamabad without obtaining completion certificate .....	58
2.4.34	Loss due to charging lesser rate on sale of additional land for Centaurus Shopping Mall - Rs 84.70 million .....	59

2.4.35	Leasing of 10 kanals land in Fatima Jinnah Park F-9 Islamabad for unauthorized construction of Grid Station.....	60
2.4.36	Non-retrieval of CDA land from Housing Societies in Sector E-11 - Rs 8,619.20 million.....	61
2.4.37	Abnormal delay in possession of land measuring 5,977 kanals in acquired sectors H-16 - Rs 4,960.81 million .....	63
2.4.38	Non-utilization of allocated funds for development of residential sectors - Rs 1,983.55 million.....	64
2.4.39	Blockade of financial resources due to Construction/ Installation of Sewage Treatment Plant beyond legitimate requirements - Rs 1,042.13 million .....	66
2.4.40	Inefficient utilization of self-financing funds hampering achievement of envisaged objectives - Rs 252.64 million .....	67
2.4.41	Environmental deterioration due to unhygienic disposal of garbage waste .....	69
	<b>Internal Control Weaknesses</b> .....	70
2.4.42	Non-finalization of Fact Finding Inquiry regarding Layout Plans/ NOCs of Housing Societies involving loss - Rs 19,007.16 million.....	70
2.4.43	Inadmissible/Unjustified expenditure on provision of electricity to Centaurus Shopping Mall resulting into undue favour to the purchaser - Rs 1,312.50 million.....	71
2.4.44	Non-recovery due to unauthorized relaxation of payment schedule of due installments through post-bid amendment - Rs 1,520.00 million.....	73
2.4.45	Payment of Electricity charges for street lights without confirming actual consumption - Rs 1,116.30 million .....	74
2.4.46	Absence of monitoring report for effective utilization of additional foreign investment on Centaurus Shopping Mall F-8/G-8 - Rs 900.00 million.....	76
2.4.47	Non-removal / Non-recovery of fine for non-conforming use of residential buildings - Rs 758.10 million.....	77
2.4.48	Unauthentic payment without detailed measurement in measurement book - Rs 485.89 million.....	79
2.4.49	Non-recovery of Property Tax and Water & Allied Charges from Semi Government/Autonomous bodies/Commercial/ Residential Properties - Rs 371.94 million.....	80
2.4.50	Unauthentic consumption of POL valuing Rs 365.81 million .....	81
2.4.51	Loss on account of house rent allowance from government employees due to non- eviction of illegal occupants of 184 flats in Sector G-6, Islamabad - Rs 264.96 million.....	83
2.4.52	Non-recovery on account of rent of Contractor's Camp developed on CDA land adjacent to Centaurus Shopping Mall F-8/G-8 - Rs 207.36 million.....	85
2.4.53	Excess payment due to execution of excessive quantities beyond the estimate - Rs 67.95 million.....	86
2.4.54	Non-recovery on account of hard rock material - Rs 32.27 million.....	87
2.4.55	Non-recovery of License fee outstanding against M/s Warid Telecommunication - Rs 51.50 million.....	89

2.4.56	Non-recovery of damages and charges for use of CDA land from METRO Project contractors - Rs 24.80 million.....	90
2.4.57	Overpayment due to allowing inadmissible item in violation of specification - Rs 24.64 million.....	91
2.4.58	Unauthentic/doubtful consumption of POL in Asphalt Mixing Plant - Rs 19.41 million.....	93
2.4.59	Less recovery/Undue benefit to the allottees on restoration of the plots - Rs 11.93 million.....	95
2.4.60	Overpayment to the pensioners by the Post Offices on account of increases in pension - Rs 8.24 million .....	95
2.4.61	Overpayment due to incorrect mode of derivation of rate - Rs 9.41 million.....	96
2.4.62	Non-provision of facilities by the contractor as per contract - Rs 6.56 million .....	98
2.4.63	Excess payment due to allowing premium on market rates - Rs 1.14 million .....	99
2.4.64	Unauthorized/unjustified placement of ninety-eight CDA officers on current charge/look after basis .....	100
CHAPTER 3 .....		102
CIVIL AVIATION AUTHORITY .....		102
3.1	Introduction .....	102
3.2	Comments on Budget and Accounts (Variance Analysis) .....	103
3.3	Brief comments on the status of compliance with PAC's directives .....	107
3.4	AUDIT PARAS .....	109
<b>Irregularity and Non-Compliance</b> .....		109
3.4.1	Irregular/unauthorized award of work to a non-specialized firm/JV - Rs 20,286.04 million.....	109
3.4.2	Irregular release of Bank Guarantee - Rs 1,556.47 million.....	110
3.4.3	Irregular award of consultancy contract - Rs 996.84 million.....	112
3.4.4	Irregular execution of lease agreement and non-recovery - Rs 483.65 million.....	113
3.4.5	Irregular award of concession license to single/sitting licensees without healthy competition - Rs 438.33 million .....	115
3.4.6	Irregular payment of arrears of pay and allowances - Rs 143.38 million .....	116
3.4.7	Irregular execution of works without approval from competent forum - Rs 84.12 million.....	117
3.4.8	Irregular expenditure in violation of PPRA rules - Rs 59.73 million.....	119
3.4.9	Irregular award of security contract on higher rates - Rs 40.02 million involving overpayment - Rs 6.47 million.....	120
3.4.10	Irregular payment of pensionary benefits - Rs 35.02 million.....	121
3.4.11	Irregular payment of Medical Allowance in violation of Govt. rules - Rs 12.48 million .....	122
3.4.12	Non-recovery from the contractor - Rs 9.81 million.....	123
3.4.13	Irregular expenditure on entertainment - Rs 6.65 million.....	124
3.4.14	Irregular appointment of Deputy Project Manager - Rs 4.82 million .....	125

<b>Internal Control Weaknesses</b> .....	126
3.4.15 Non-realization of revenue - Rs 7,450.91 million.....	126
3.4.16 Undue financial assistance to the contractor due to provisional payments - Rs 3,228.00 million.....	128
3.4.17 Loss to the Authority due to improper planning - Rs 1,555.82 million .....	129
3.4.18 Undue financial assistance to the contractor - Rs 1,504.40 million .....	130
3.4.19 Loss due to acceptance of higher bid - Rs 1,379.68 million .....	132
3.4.20 Non-imposition of liquidated damages due to non-completion of work within stipulated period - Rs 799.22 million .....	134
3.4.21 Loss due to mismanagement - Rs 774.55 million .....	135
3.4.22 Recurring loss due to unauthorized possession of land - Rs 199.36 million.....	137
3.4.23 Loss to Authority due to cancellation of plot - Rs 173.70 million.....	138
3.4.24 Non-recovery of consultant supervisory cost incurred on construction supervision of work beyond stipulated period - Rs 159.84 million.....	139
3.4.25 Overpayment due to non-adherence to contract and non-application of favourable exchange rate in unapproved extended period - Rs 129.57 million .....	141
3.4.26 Excess expenditure due to change in specification - Rs 137.72 million .....	143
3.4.27 Non-recovery of preliminaries cost in-built in the item rate - Rs 115.67 million .....	144
3.4.28 Seizure of huge quantity of foreign currency and gold - Rs 93.20 million .....	146
3.4.29 Recurring loss due to non-recovery of space charges - Rs 50.12 million .....	147
3.4.30 Loss due to award of land on license basis instead of lease - Rs 35.83 million.....	148
3.4.31 Overpayment on account of engineer's/employer's facilities - Rs 23.50 million .....	149
3.4.32 Non-recovery of rent from a private concern - Rs 23.12 million.....	150
3.4.33 Wasteful expenditure on purchase of spares - Rs 22.74 million .....	152
3.4.34 Loss due to mis-management - Rs 12.13 million.....	153
3.4.35 Overpayment due to non-application of rebate of additional items of works - Rs 11.89 million.....	154
3.4.36 Overpayment due to incorrect application of rate - Rs 9.71 million.....	156
3.4.37 Overpayment to contractor due to inadmissible price escalation - Rs 9.71 million .....	157
3.4.38 Loss due to non-levy of Passenger Embarkation Fee on bonafide staff members of Airlines - Rs 8.45 million .....	158
3.4.39 Less recovery of license fee and security deposit - Rs 6.60 million .....	159
3.4.40 Wastage of public money by incurring unnecessary expenditure - Rs 6.24 million .....	161
3.4.41 Loss due to hiring of Public Relation Consultants without any justification - Rs 6.00 million.....	162
3.4.42 Overpayment due to enhancement of consultancy work - Rs 5.64 million.....	163
3.4.43 Less recovery - Rs 3.32 million .....	164
3.4.44 Loss on account of forfeiture of security deposit - Rs 3.10 million.....	166
3.4.45 Non-adjustment of TA/DA Advances - Rs 1.99 million.....	167
3.4.46 Loss due to non-adherence to the agreement's provision - Rs 1.97 million .....	168

3.4.47	Unjustified reimbursement of Legal Fee and expenses for engaging lawyer against personal case - Rs 1.79 million.....	169
3.4.48	Loss due to delay in execution of scheme - Rs 1.70 million.....	170
3.4.49	Loss of revenue due to application of incorrect rates - Rs 1.23 million.....	172
3.4.50	Non-execution of lease deeds for the spaces occupied by PIAC resulted in a loss of millions of rupees .....	172
3.4.51	Non-initiating of disciplinary proceedings against employee having Bogus Degrees .....	174
CHAPTER 4.....		176
NATIONAL HIGHWAY AUTHORITY .....		176
4.1	Introduction .....	176
4.2	Comments on Budget and Accounts (Variance Analysis) .....	178
4.3	Brief comments on the status of compliance with PAC's directives .....	179
4.4	AUDIT PARAS .....	181
<b>Irregularity and Non-Compliance</b> .....		181
4.4.1	Irregular award of work to ineligible joint venture - Rs 12,937.31 million .....	181
4.4.2	Non-implementation of directions of Chairman NHA on the premature failure of a road project - Rs 8,757.72 million .....	183
4.4.3	Irregular award of work to ineligible contractor in the cover of Joint Venture - Rs 6,775.23 million.....	184
4.4.4	Irregular award of work to a disqualified in-eligible firm for Rs 4,405.62 million and loss due to delay in award of work - Rs 469.28 million.....	186
4.4.5	Irregular/unauthorized award of work to non-eligible firm - Rs 1,808.19 million.....	191
4.4.6	Irregular execution of works without approval of the competent forum - Rs 1,552.40 million.....	193
4.4.7	Irregular award of contracts to the defaulter/unqualified bidder - Rs 1,348.12 million.....	195
4.4.8	Excess expenditure on account of acquisition of land at higher rates than provision of PC-I - Rs 815.00 million.....	196
4.4.9	Excess payment due to excessive measurement beyond X-Section PC-I Provision - Rs 792.32 million.....	198
4.4.10	Undue financial aid through additional mobilization advance due to unauthorized contract amendment - Rs 708.81 million and non-recovery of markup thereon - Rs 283.52 million.....	199
4.4.11	Undue financial aid to contractor due to grant of additional mobilization advance - Rs 862.91 million.....	201
4.4.12	Irregular extension and enhancement of contract period of toll operation - Rs 650.00 million and shortfall of tax for Rs 48.31 million .....	202
4.4.13	Irregular withdrawal/bridge financing from Road Maintenance Account - Rs 567.00 million.....	203
4.4.14	Unjustified award of consultancy assignments having conflict of interest - Rs 448.55 million.....	205



4.4.15	Non-procurement of contract in approved time limit caused unjustified extra cost - Rs 323.01 million.....	208
4.4.16	Non-seeking clarification from the lowest bidder and award of work to the second lowest at higher bid price - Rs 270.83 million .....	209
4.4.17	Unauthorized/unjustified expenditure due to change in location of works without prior approval of competent authority - Rs 318.64 million .....	212
4.4.18	Irregular award of consultancy/contract agreements without open tendering - Rs 66.21 million.....	219
4.4.19	Irregular execution of work for Rs 57.21 million involving overpayment due to higher rates - Rs 12.86 million.....	225
4.4.20	Overpayment due to higher rates of non-BOQ items - Rs 67.77 million.....	226
4.4.21	Excess payment due to excessive measurement of item of work - Rs 36.34 million involving overpayment due to allowing inadmissible extra payment - Rs 9.10 million .....	228
4.4.22	Excess payment due to excessive measurement of quantity - Rs 27.59 million and overpayment due to non-utilization of available earth - Rs 8.08 million .....	230
4.4.23	Award of work to foreign firms having unsound JV with two different local firms .....	232
4.4.24	Irregularities in BOT Contract of M-2 between NHA and M/s MORE.....	234
4.4.25	Loss due to award of work at higher premium - Rs 12.15 million.....	243
4.4.26	Non-compliance of DAC's directives regarding recoveries and inquiries - Rs 2,050.14 million.....	244
	<b>Performance.....</b>	<b>246</b>
4.4.27	Non-implementation of provision of Environmental Protection Cost in PC-I of US\$ 4.32 million - Rs 432.00 million.....	246
4.4.28	Undue burden on Authority's revenue due to delay in acquisition of land and excess acquisition than genuine requirement - Rs 352.72 million .....	247
4.4.29	Inordinate delay in the pre-requisite arrangements caused non-availing of grant - Rs 250.00 million.....	250
	<b>Internal Control Weaknesses.....</b>	<b>251</b>
4.4.30	Loss of revenue due to non-recovery of NOC/Right of way charges from NHA ROW in Punjab South Region - Rs 2,937.00 million.....	251
4.4.31	Non-recovery of cost and rent of plant and machinery not returned by the contractors - Rs 2,031.44 million.....	253
4.4.32	Non-award of works under risk & cost of the defaulting contractors - Rs 1,630.69 million.....	254
4.4.33	Loss of revenue due to short collection of toll than reserve price and non-operation of newly established toll plazas - Rs 1,128.78 million.....	260
4.4.34	Overpayments on account of price escalation - Rs 1,123.26 million.....	265
4.4.35	Non-recovery on account of price de-escalation - Rs 226.64 million .....	268
4.4.36	Unauthentic payment of price escalation due to non-revision of Factor-C - Rs 1,322.23 million.....	269
4.4.37	Non-recovery of liquidated damages - Rs 653.98 million .....	271

4.4.38	Overpayment due to re-rating of modified rail tunnel excavation rates - Rs 392.39 million.....	272
4.4.39	Irregular /unjustified award of contract on account of support and maintenance of ETTM system and overburdened the NHA revenue - Rs 289.99 million .....	274
4.4.40	Non-recovery of transportation cost due to non-disposal of excavated material - Rs 197.59 million.....	276
4.4.41	Loss of revenue due to award of operation & management of weigh station contracts on higher rates - Rs 178.49 million.....	277
4.4.42	Unjustified payment of interest to contractor due to delayed payment - Rs 172.57 million.....	279
4.4.43	Non-charging of financial impact of EOT and interest accrued on loan advance due to non-execution of work as per approved plan of the work - Rs 128.97 million .....	281
4.4.44	Loss of revenue due to award of fine collection contracts on unbalanced/irrational percentage basis - Rs 120.25 million .....	283
4.4.45	Overpayment to Contractor due to non-deduction of rebate - Rs 110.65 million .....	285
4.4.46	Undue burden on RMA account due to deployment of consultant for construction supervision of maintenance work - Rs 76.77 million.....	286
4.4.47	Loss of revenue due to non-awarding of ETTM toll plazas through competitive bidding - Rs 64.02 million .....	289
4.4.48	Overpayment due to non-deduction of cost of in-built component of an item - Rs 56.10 million.....	290
4.4.49	Loss of revenue due to non-implementation of prescribed timelines - Rs 52.63 million.....	292
4.4.50	Overpayment due to allowing full rate instead of reduced rate - Rs 68.32 million.....	293
4.4.51	Undue burden on the Public Exchequer in shape of interest - Rs 48.92 million .....	296
4.4.52	Non-recovery on account of rectification of damaged works from the contractor - Rs 42.22 million.....	297
4.4.53	Overpayment due to non-utilization of available item - Rs 36.89 million .....	299
4.4.54	Excess payment due to excessive quantities - Rs 34.20 million .....	300
4.4.55	Non-recovery of cost of mucking material of modified road tunnel utilized under other relevant work - Rs 33.55 million .....	302
4.4.56	Overpayment due to allowing higher rates for additional work/excess quantities - Rs 5.78 million .....	303
4.4.57	Overpayment due to allowing water charges on value of quantities exceeding BOQ - Rs 22.10 million.....	304
4.4.58	Less recovery of rebate - Rs 20.49 million .....	305
4.4.59	Overpayment due to separate /additional payment for cutting picks/tool beyond agreement provision - Rs 20.82 million.....	307
4.4.60	Unjustified payment of bonus to the contractor - Rs 20.55 million .....	308
4.4.61	Overpayment due to allowing incorrect rates for consultants salary - Rs 20.19 million.....	310
4.4.62	Overpayment due to non-deduction of earth available from roadway excavation - Rs 19.45 million.....	311
4.4.63	Overpayment due to payment at higher rates - Rs 28.00 million.....	312

4.4.64	Non-recovery of cost of below specification work - Rs 24.49 million .....	313
4.4.65	Overpayment in violation of NHA Specifications - Rs 20.33 million .....	314
4.4.66	Unjustified payment on account of maintenance of hospitals without provision of buildings - Rs 17.84 million .....	316
4.4.67	Unjustified inclusion of 6% income tax in contract amount of the consultant - Rs 15.97 million.....	318
4.4.68	Excess payment due to unjustified increase in cost of general items - Rs 13.12 million .....	319
4.4.69	Overpayment due to higher rate - Rs 10.42 million.....	320
4.4.70	Unnecessary procurement of equipment without requirement - Rs 10.00 million.....	321
4.4.71	Non-recovery of flood damages from insurance company - Rs 9.92 million .....	323
4.4.72	Overpayment due to unauthorized measurement of access roads - Rs 9.46 million .....	325
4.4.73	Overpayment due to non-adherence to approved drawing design and adoption of extra width than approved cross section - Rs 8.64 million .....	326
4.4.74	Overpayment due to inadmissible item of Seal Coat - Rs 8.16 million .....	328
4.4.75	Overpayment due to inadmissible payments to the consultants - Rs 8.00 million .....	329
4.4.76	Overpayment due to incorrect measurement - Rs 7.82 million.....	331
4.4.77	Overpayment due to non-execution of item in conformance with the contract specification - Rs 7.80 million .....	332
4.4.78	Non-recovery of execution of below specification work - Rs 7.48 million .....	334
4.4.79	Overpayment due to increase of remuneration through variations - Rs 7.05 million.....	335
4.4.80	Unjustified/undue/inadmissible provision of machinery hours/ labour caused extra expenditure - Rs 6.72 million.....	337
4.4.81	Non-forfeiture of bank guarantee for Rs 6.01 million and non-encashment of performance bond of the defaulting contractor -Rs 2.00 million .....	339
4.4.82	Overpayment due to measurement of cold milling quantity beyond site requirement - Rs 5.93 million .....	340
4.4.83	Unauthentic payment of Rs 5.37 million and overpayment due to incorrect calculation of escalation - Rs 2.80 million .....	342
4.4.84	Overpayment due to allowing premium on value of non-BOQ items - Rs 5.27 million.....	343
4.4.85	Overpayment due to non-adjustment of rate - Rs 4.57 million .....	344
4.4.86	Non-recovery of mobilization advance - Rs 4.25 million.....	345
4.4.87	Unjustified provision/payment for lab equipment - Rs 3.00 million.....	347
4.4.88	Unjustified/overpayment for Road Diversion Work - Rs 2.60 million .....	348
4.4.89	Loss due to payment of interest on delayed payment - Rs 2.45 million.....	350
4.4.90	Overpayment to contractor due to valuation of item at higher rate - Rs 2.42 million.....	351
4.4.91	Overpayment due to unjustified payment of ramps - Rs 2.09 million .....	352
	<b>Others</b> .....	354
4.4.92	Expected loss due to award of construction work on BOT basis without conducting preliminary study/commercial study/toll revenue assessment by NHA/third party - Rs 119.93 billion.....	354

CHAPTER 5 .....	356
PAKISTAN PUBLIC WORKS DEPARTMENT AND ESTATE OFFICE.....	356
5.1    Introduction .....	356
5.2    Comments on Budget and Accounts (Variance Analysis) .....	357
5.3    Brief comments on the status of compliance with PAC’s directives .....	361
5.4    AUDIT PARAS .....	363
<b><i>Irregularity and Non-Compliance</i></b> .....	363
5.4.1    Non-receiving back funds amounting to Rs 2,300.91 million from M/s NLC along with accrued interest about Rs 641.07 million.....	363
5.4.2    Payment without recording detailed measurements in Measurement Books - Rs 1,464.57 million.....	364
5.4.3    Unauthorized withholding of amounts - Rs 138.92 million.....	366
5.4.4    Irregular expenditure on new schemes under Peoples Works Programme -II (PWP) - Rs 95.38 million.....	367
5.4.5    Non-revalidation of performance guarantee – Rs 61.79 million and advance payment guarantee - Rs 46.54 million.....	369
5.4.6    Non-recovery of Mobilization Advance Rs 50.58 million and acceptance of Insurance Guarantee from a low rating Insurance Company .....	370
5.4.7    Unauthorized retention of development funds in PLA-III (non-lapsable) to avoid lapse - Rs 39.65 million .....	371
5.4.8    Undue payment of Construction Supervision Charges beyond the stipulated period - Rs 9.43 million.....	373
5.4.9    Award of works to ineligible Contractors - Rs 4.86 million .....	374
<b><i>Performance</i></b> .....	376
5.4.10    Loss due to abnormal delay in completion of project and mis-management on the part of the site supervisor - Rs 2.48 billion .....	376
5.4.11    Loss to Government due to delay in the completion of project - Rs 1.00 billion.....	377
<b><i>Internal Control Weaknesses</i></b> .....	379
5.4.12    Non-obtaining of insurance policies of Rs 1,086.57 and recovery of un-insured period - Rs 10.86 million.....	379
5.4.13    Irregular expenditure on work charged establishment - Rs 300.73 million .....	380
5.4.14    Non-recovery from different contractors against work - Rs 76.44 million .....	382
5.4.15    Overpayment due to applying incorrect price adjustment formula - Rs 64.63 million .....	383
5.4.16    Acceptance of tender at higher rates - Rs 30.86 million .....	385
5.4.17    Non-deposit of duties and taxes to government - Rs 29.49 million .....	386
5.4.18    Payment of site facilities without documentary evidence - Rs 19.30 million .....	387
5.4.19    Unauthentic payment of escalation - Rs 16.56 million .....	388
5.4.20    Overpayment due to unauthorized increase of rate - Rs 10.59 million .....	390
5.4.21    Discrepancy in balance of Other Deposits (PLA-III) – Rs 8.76 million .....	391
5.4.22    Non-deduction/less deduction of income tax - Rs 6.04 million .....	392

5.4.23	Overlapping of services resulted in excess expenditure - Rs 2.09 million.....	394
5.4.24	Loss due to submission of fake Call Deposit by the lowest bidder - Rs 1.88 million .....	395
5.4.25	Execution of work without releases of fund - Rs 1.39 million.....	396
5.4.26	Overpayment due to higher rates of essential spare parts - Rs 1.04 million .....	397
5.4.27	Encroachment of department's land worth billions of rupees.....	398
	ESTATE OFFICE.....	400
	AUDIT PARAS .....	400
	<b><i>Irregularity and Non-Compliance</i></b> .....	400
5.4.28	Non-maintenance of General Waiting List (GWL) and placement on website site .....	400
5.4.29	Unauthorized allocation of Government accommodations .....	402
5.4.30	Allotment of 11 houses to the government servants over and above the prescribed category of accommodation.....	403
	<b><i>Internal Control Weaknesses</i></b> .....	404
5.4.31	Non-vacation of Government accommodations and non-recovery of rental ceiling - Rs 76.94 million.....	404
5.4.32	Non-recovery of rent of Government accommodation - Rs 50.90 million.....	411
5.4.33	Recurring loss to government due to non-recovery of rent from the allottees of shops - Rs 11.15 million.....	412
5.4.34	Non-recovery of rent at market rate - Rs 4.06 million .....	414
5.4.35	Non-cancellation of lease agreement due to non-recovery of outstanding rent and non-execution of fresh agreement on revised rates - Rs 3.82 million .....	415
5.4.36	Occupation on the basis of fake allotment order and non-recovery of rental ceiling - Rs 1.25 million .....	417
5.4.37	Non-vacation of government residential buildings from the employees of non-entitled department .....	418
5.4.38	Non-existence of policy for renting out government shops .....	419
5.4.39	Non-preparation of Capital and Revenue accounts of Government residential buildings.....	421
	<b>CHAPTER 6</b> .....	423
	<b>FEDERAL GOVERNMENT EMPLOYEES HOUSING FOUNDATION</b> .....	423
6.1	Introduction .....	423
6.2	Comments on Budget and Accounts (Variance Analysis) .....	425
6.3	Brief comments on the status of compliance with PAC's directives .....	426
6.4	AUDIT PARAS .....	427
	<b><i>Irregularity and Non-Compliance</i></b> .....	427
6.4.1	Irregular execution of project valuing Rs 1,499.43 million and non-recovery - Rs 267.38 million.....	427
6.4.2	Irregular allotment of plots in Phase-IV without approval of CDA - Rs 36.44 million .....	430
6.4.3	Non-recovery of solid waste management charges from the allottees - Rs 8.27 million .....	431
6.4.4	Excessive expenditure due to deployment of excessive officers - Rs 0.96 million.....	432

6.4.5	Non-availability of policy regarding cost assessment of plot on transfer to third party resulted in recurring loss to Govt. on account of tax .....	433
CHAPTER 7	.....	435
	NATIONAL CONSTRUCTION LIMITED.....	435
7.1	Introduction .....	435
7.2	Comments on Audited Accounts .....	435
7.3	Brief comments on the status of compliance with PAC's directives .....	437
7.4	AUDIT PARAS .....	438
	<i>Irregularity and Non-Compliance</i> .....	438
7.4.1	Non-adjustment of Mobilization Advance - Rs 170.14 million .....	438
7.4.2	Non-adjustment / recovery of advances - Rs 76.79 million .....	440
CHAPTER 8	.....	442
	PAKISTAN HOUSING AUTHORITY FOUNDATION.....	442
8.1	Introduction .....	442
8.2	Comments on Budget and Accounts/Financial Statements (Variance Analysis).....	443
8.3	Brief comments on the status of compliance with PAC's directives .....	446
8.4	AUDIT PARAS .....	447
	<i>Non-Production of Record</i> .....	447
8.4.1	Non-production of record relating to MS Wing of Pakistan Housing Authority Foundation .....	447
	<i>Irregularity and Non-Compliance</i> .....	449
8.4.2	Loss due to irregular waiver of delayed payment charges - Rs 1,041.73 million .....	449
8.4.3	Delay in development works due to non-recovery of outstanding dues - Rs 766.51 million.....	451
8.4.4	Non-obtaining of insurance of Works and Contractor's Equipment worth Rs 666.72 million and non-recovery of 2 % insurance premium - Rs 11.59 million .....	453
8.4.5	Execution of works without obtaining IEE and EIA - Rs 663.48 million.....	455
8.4.6	Extra cost to the beneficiaries of Rs 77.07 million due to suspension of work and non-imposition / recovery of liquidated damages - Rs 57.98 million .....	458
8.4.7	Unauthorized obtaining of Performance Guarantees and non-extension - Rs 43.49 million.....	460
8.4.8	Overpayment to contractor due to excess measurement of surplus earth - Rs 42.51 million.....	462
8.4.9	Overpayment due to unjustified payment of carriage/ transportation charges - Rs 13.93 million.....	464
8.4.10	Non-maintenance of record relating to revenue collection from the allottees by Management Services Wing PHAF and unauthentic expenditure - Rs 14.24 million .....	466
8.4.11	Overpayment on account of non-deduction of excavation component - Rs 13.70 million ....	468
8.4.12	Payment of price escalation in violation of PEC procedure and without provision in contract agreement - Rs 8.04 million .....	470

8.4.13	Non-recovery of penalty from the defaulting Design Consultants - Rs 5.40 million.....	474
8.4.14	Non-recovery due to non-provision of employer facilities by the Contractor - Rs 3.00 million.....	476
8.4.15	Non-recovery of cost of security fence - Rs 5.79 million .....	478
8.4.16	Loss due to missing of vehicle - Rs 1.50 million.....	479
8.4.17	Irregular appointments in PHAF and non-payment of salaries to the employees of MS Wing .....	481
8.4.18	Issuance of fake NOCs to the allottees of PHA flats without depositing maintenance charges .....	483
CHAPTER 9 .....		486
EVACUEE TRUST PROPERTY BOARD .....		486
9.1	Introduction .....	486
9.2	Comments on Budget and Accounts (Variance Analysis) .....	487
9.3	Brief comments on the status of compliance with PAC's directives .....	487
9.4	AUDIT PARAS .....	489
<i>Non-Production of Record</i> .....		489
9.4.1	Doubtful payment due to non-production of record of works - Rs 123.04 million.....	489
<i>Irregularity and Non-Compliance</i> .....		490
9.4.2	Unjustified payment of balance work - Rs 9.73 million .....	490
<i>Internal Control Weaknesses</i> .....		492
9.4.3	Unreliable payments due to missing vouchers - Rs 19.50 million .....	492
9.4.4	Unjustified payment of Rs 15.50 million.....	493
CHAPTER 10 .....		496
FRONTIER CORPS .....		496
10.1	Introduction .....	496
10.2	Comments on Budget and Accounts (Variance Analysis) .....	496
10.3	Brief comments on the status of compliance with PAC's directives .....	498
10.4	AUDIT PARAS .....	499
<i>Irregularity and Non-Compliance</i> .....		499
10.4.1	Non-recording of detailed measurements of work done in measurement books - Rs 348.03 million.....	499
10.4.2	Award of work without detailed estimate and technical sanctioned estimate - Rs 2,124.72 million.....	501
<i>Internal Control Weaknesses</i> .....		504
10.4.3	Non-confirmation of deposit of GST - Rs 4.25 million .....	504
CHAPTER 11 .....		506
PAKISTAN RANGERS .....		506
11.1	Introduction .....	506
11.2	Comments on Budget & Accounts (Variance Analysis).....	506
11.3	Brief comments on the status of compliance with PAC's directives .....	508

11.4 AUDIT PARAS .....	509
<i>Irregularity and Non-Compliance</i> .....	509
11.4.1 Irregular execution of works by the Department - Rs 163.76 million.....	509
CHAPTER 12 .....	511
HIGHER EDUCATION COMMISSION.....	511
12.1 Introduction .....	511
12.2 Comments on Budget and Accounts (Variance Analysis) .....	512
12.3 Brief comments on the status of compliance with PAC's directives .....	512
12.4 AUDIT PARAS .....	513
<i>Irregularity and Non-Compliance</i> .....	513
12.4.1 Excess expenditure on civil works beyond the PC-I - Rs 51.75 million .....	513
12.4.2 Irregular award of consultancy contracts for Rs 11.05 million to second lowest resulted in excess expenditure - Rs 0.90 million .....	515
Internal Control Weaknesses .....	517
12.4.3 Loss due to non-return of Ph.D scholars from abroad after completion of studies - Rs 55.11 million.....	517
12.4.4 Unauthentic payment without detailed measurement - Rs 37.54 million.....	519
12.4.5 Overpayment due to allowing higher rates - Rs 4.27 million .....	520
12.4.6 Overpayment due to allowing higher rates - Rs 4.05 million .....	521
12.4.7 Overpayment due to allowing separate payment of inbuilt component through extra item - Rs 3.62 million .....	522
12.4.8 Excessive expenditure due to allowing BoQ item through extra item at higher rates - Rs 2.51 million .....	523
12.4.9 Less recovery on account of income tax - Rs 0.71 million .....	525
CHAPTER 13 .....	527
WORKERS WELFARE FUND/BOARDS .....	527
13.1 Introduction .....	527
13.2 Comments on Budget and Accounts (Variance Analysis) .....	528
13.3 Brief comments on the status of compliance with PAC's directives .....	529
13.4 AUDIT PARAS .....	530
<i>Irregularity and Non-Compliance</i> .....	530
13.4.1 Unauthentic expenditure on account of Scholarship/Marriage and Death grant - Rs 550.82 million.....	530
13.4.2 Unauthorized payment of rental ceiling for hiring of residential accommodation at non- specified stations - Rs 205.58 million.....	532
13.4.3 Irregular payment of house rent ceiling at higher rates - Rs 11.57 million.....	534
13.4.4 Non-obtaining of vouched account of compensation - Rs 129.50 million.....	535
13.4.5 Unauthorized/Overpayment of conveyance allowance and house hiring due to allowing higher rates than rates notified by the Government - Rs 92.84 million.....	536



13.4.6	Unauthorized payment of conveyance allowances due to allowing higher rates than rates notified by the Finance Division - Rs 21.01 million.....	538
13.4.7	Unjustified payment of Dearness Allowance to employees - Rs 15.45 million.....	539
13.4.8	Unjustified payment on account of teaching allowance and science teaching allowance - Rs 10.85 million .....	541
13.4.9	Overpayment due to payment of conveyance allowance at higher rates - Rs 4.59 million.....	543
13.4.10	Irregular expenditure due to unauthorized appointments on ad-hoc basis beyond six months - Rs 1.20 million.....	544
13.4.11	Non-insurance of work costing of Rs 712.32 million and recovery of premium - Rs 14.25 million @ 2 % of contract cost .....	545
	<b>Performance</b> .....	547
13.4.12	Unjustified expenditure on Matric-Tech Programme - Rs 47.38 million.....	547
13.4.13	Irregular payment due to non-functional equipment - Rs 6.60 million.....	548
13.4.14	Wasteful expenditure on non-operational school - Rs 1.02 million.....	549
	<b>Internal Control Weaknesses</b> .....	550
13.4.15	Double payment on account of land acquisition cost - Rs 56.58 million.....	550
13.4.16	Non-cancelation of allotments and forfeiture of deposited amount - Rs 16.80 million .....	551
13.4.17	Non-recovery of outstanding dues from allottees - Rs 10.37 million .....	552
13.4.18	Loss due to award of supervision consultancy at higher rate - Rs 10.98 million .....	554
13.4.19	Non-recovery of cost of trees - Rs 10.29 million.....	556
13.4.20	Overpayment due to allowing excess quantities of items - Rs 7.21 million .....	557
13.4.21	Loss due to non-disposal of residential quarters - Rs 6.60 million .....	558
13.4.22	Irregular payment of scholarship - Rs 2.24 million .....	559
CHAPTER 14	.....	561
	PAKISTAN MEDICAL AND DENTAL COUNCIL .....	561
14.1	Introduction .....	561
14.2	Comments on Budgets and Accounts .....	561
14.3	Brief comments on the status of compliance with PAC's directives .....	562
14.4	AUDIT PARAS .....	563
	<b>Irregularity and Non-Compliance</b> .....	563
14.4.1	Irregular hiring of examination hall for National Examination Board (NEB) Exam without open competition - Rs 5.46 million .....	563
14.4.2	Irregular recognition due to non-possession of Teaching Hospital and College Building by private Medical & Dental Colleges.....	564
14.4.3	Irregular recognition / running of Medical and Dental Colleges without fulfilling minimum eligibility criteria .....	565
	<b>Internal Control Weaknesses</b> .....	570
14.4.4	Unjustified increase in tuition fee by PM&DC .....	570

14.4.5	Enhancement of admission seats in various private medical and dental colleges at the cost of national health .....	571
Annexure-1:	MFDAC.....	573
Annexure-2:	Comments on Internal Controls.....	574

## **ABBREVIATIONS AND ACRONYMS**

AAR	Accommodation Allocation Rules
ACBC	Asphaltic Concrete Base Course
ADA	Airport Development Agency
ADB	Asian Development Bank
ADP	Annual Development Programme
AGPR	Accountant General Pakistan Revenues
AIR	Audit & Inspection Report
AMP	Annual Maintenance Plan
APPM	Accounting Policies and Procedures Manual
BCS	Building Control Section
BFO	Budget and Finance Officer
BOQ	Bill of Quantities
BOT	Build Operate and Transfer
CAA	Civil Aviation Authority
CCD	Central Civil Division
CDA	Capital Development Authority
CDWP	Central Development Working Party
Cft	Cubic Foot
CGE	Central Government Employee
CPWA	Central Public Works Accounts
CPWD	Central Public Works Department
CoC	Condition of Contract
CSR	Composite Schedule of Rates
cu.m	Cubic Meter
DAC	Departmental Accounts Committee
DBA	Directorate of Budget and Accounts
DDO	Drawing and Disbursing Officer
DDWP	Departmental Development Working Party
D.G.	Director General
DP	Draft Para
EAD	Economic Affairs Division
E&M	Electrical and Mechanical
ECNEC	Executive Committee of the National Economic Council
EIA	Environmental Impact Assessment
EO	Estate Office

EPA	Environmental Protection Agency
EPC	Escalation Payment Certificate
ETPB	Evacuee Trust Property Board
ETTM	Electronic Traffic Toll Management
FBR	Federal Board of Revenue
FC	Frontier Corps
FERP	Flood Emergency Reconstruction Project
FGEHF	Federal Government Employees Housing Foundation
FIA	Federal Investigation Agency
FIDIC	Federation Internationale Des Ingenieurs-Conseils (International Federation of Consulting Engineers)
FWO	Frontier Works Organization
FY	Financial Year
GB	Governing Body
GB	Gilgit-Baltistan
GFR	General Financial Rules
GPF	General Provident Fund
GST	General Sales Tax
GWL	General Waiting List
HDM	Highway Design and Management
HVAC	Heating, Ventilating and Air-conditioning
HEC	Higher Education Commission
HMC	Heavy Mechanical Complex
HQ	Headquarters
HSD	High Speed Diesel
ICB	International Competitive Bidding
ICT	Islamabad Capital Territory
IEE	Initial Environmental Examination
IESCO	Islamabad Electric Supply Company
IPC	Interim Payment Certificate
ITB	Instructions to Bidder
JIAP	Jinnah International Airport
JICA	Japan International Cooperation Agency
JV	Joint Venture
KIBOR	Karachi Interbank Offered Rate
KKH	Karakoram Highway

KPK	Khyber Pakhtunkhwa
LARP	Land Acquisition and Resettlement Plan
MB	Measurement Book
MES	Military Engineering Service
MFDAC	Memorandum for Departmental Accounts Committee
MoC	Ministry of Communications
MORE	Motorways Operations and Rehabilitation Engineering
MPO	Machinery Pool Organization
MS	Management Services
NAM	New Accounting Model
NCL	National Construction Limited
NESPAK	National Engineering Services of Pakistan
NHA	National Highway Authority
NHC	National Highway Council
NHEB	National Highway Executive Board
NHIP	National Highway Improvement Programme
NIAP	New Islamabad International Airport Project
NIT	Notice Inviting Tender
NLC	National Logistics Corporation
NOC	No Objection Certificate
O&M	Operation and Management
OMC	Operation and Management Contract
PAC	Public Accounts Committee
P&CA	Procurement & Contract Administration
P&D	Planning and Development
P&DR	Planning, Development and Reforms
PAO	Principal Accounting Officer
PAR	Performance Audit Report
PC-I	Planning Commission (Proforma-I)
PCC	Plain Cement Concrete
PCFC	Pak China Friendship Centre
PDP	Proposed Draft Para
PEC	Pakistan Engineering Council
PHA	Pakistan Housing Authority
PHAF	Pakistan Housing Authority Foundation
PKR	Pakistan Rupee

PLA	Personal Ledger Account
PMC	Project Management Consultants
PM&DC	Pakistan Medical and Dental Council
PMO	Project Management Office
POL	Petroleum, Oil and Lubricants
PPP	Public Private Partnership
PPRA	Public Procurement Regulatory Authority
PPWD	Pakistan Public Works Department
PR	Pakistan Rangers
PS	Particular Specification
PSDP	Public Sector Development Programme
PSO	Pakistan State Oil
PWD	Public Works Department
PWP	Peoples Works Programme
RAMD	Road Asset Management Division
RAMS	Road Asset Management System
RCC	Re-inforced Cement Concrete
RD	Reduced Distance
RFP	Request for Proposals
Rft	Running Foot
RM	Running Meter
RMA	Road Maintenance Account
ROW	Right of Way
SAR	Special Audit Report
SH	Sub-Head
SOP	Standard Operating Procedure
SRO	Statutory Regulatory Order
TOR	Terms of Reference
TP	Thermo Plastic
TST	Triple Surface Treatment
VO	Variation Order
WWB	Workers Welfare Board
WWF	Workers Welfare Fund

## **Preface**

Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973, read with the Sections 8 and 12 of the Auditor General (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 require the Auditor General of Pakistan to conduct audit of the accounts of the Federal and of the Provincial Governments and the accounts of any authority or body established by, or under the control of, the Federal or a Provincial Government.

The report is based on audit of the accounts of CDA, CAA, NHA, Pak. PWD, EO, FGEHF, NCL, PHAF, ETPB, FC, PR, HEC, WWF/Bs and PM&DC for the financial year 2014-15 and also contains some audit observations for the financial years 2012-13 and 2013-14. The Directorate General Audit Works (Federal), Islamabad conducted audit during 2015-16 on a test check basis with a view to reporting significant findings to the relevant stakeholders. The main body of the Audit Report includes only the systemic issues and audit findings carrying value of Rs 1 million or more. Relatively less significant issues are listed in the Annexure-1 of the Audit Report. The audit observations listed in Annexure-1 shall be pursued with the Principal Accounting Officers at the DAC level and in all cases where the PAO does not initiate appropriate action, the Audit observations will be brought to the notice of the Public Accounts Committee through the next year's Audit Report.

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

Most of the observations included in this Audit Report have been finalized after due consideration of written responses of the audited entities and discussions in DAC meetings.

The Audit Report is submitted to the President of Pakistan in pursuance of Article 171 of the Constitution of the Islamic Republic of Pakistan 1973, for causing it to be laid before the Parliament.

**Sd/-**

Islamabad  
Dated: 22<sup>nd</sup> April, 2016

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





## **EXECUTIVE SUMMARY**

The Directorate General Audit Works (Federal), Islamabad, carried out the audit of Federal Government entities engaged in construction works, namely, Capital Development Authority, Civil Aviation Authority, National Highway Authority, Pakistan Public Works Department, Estate Office, Federal Government Employees Housing Foundation, National Construction Limited, Pakistan Housing Authority Foundation, Evacuee Trust Property Board, Frontier Corps, Pakistan Coast Guards, Pakistan Rangers, Higher Education Commission, Workers Welfare Fund/Boards, Bureau of Emigration and Overseas Employment, Pakistan Medical and Dental Council and Ministry of Planning, Development and Reforms (Afghan Projects). These entities function under the administrative control of various Principal Accounting Officers and consume major portion of the funds provided under the Public Sector Development Programme.

The Directorate General Audit Works (Federal), Islamabad, has existing human resource of 156 including officers and staff. The annual budget of the Directorate General for the current financial year is Rs 138.812 million. The Directorate General is mandated to conduct Financial Attest, Compliance with Authority Audit and Performance Audit of civil works including mega projects of Federal Government. As part of its Audit Plan (2015-16), for the Compliance with Authority Audit, the Directorate General Audit Works (Federal) conducted audit of 119 formations, out of the 271 under its audit jurisdiction during Phase-I of the Audit Plan, by deputing fifteen (15) Field Audit Teams with an input of 3,510 man-days. Moreover, regularity audit of twenty-five (25) formations relating to CDA, CAA, NHA, PD&R and PM&DC were conducted in Phase-II of Audit Plan of 2014-15 and audit observations have been included in this Audit Report.

The objectives of audit were to:

- i. ascertain whether or not the moneys shown as expenditure in the accounts were authorized for the purpose for which they were spent;
- ii. observe whether the expenditure incurred is in conformity with the laws, rules and regulations framed to regulate the procedure for expending public money;
- iii. ascertain whether every item of expenditure is incurred with the approval of the competent authority in the Government for expending the public money;
- iv. examine propriety of transactions to ascertain whether due vigilance has been exercised in respect of expenditure incurred from public moneys;
- v. review, analyze and comment on impact and implications of various government policies relating to the audited entities;
- vi. review, analyze and comment on budget, accounts, financial statements, balance sheet, etc. and
- vii. verify that rules and procedures were followed in assessment and collection of revenues.

**i. Scope of Audit**

Out of total works expenditure of the Federal Government for the financial year 2014-15, auditable expenditure under the jurisdiction of Director General Audit (DGA), Works (Federal), Islamabad was Rs 160,134.41 million covering 271 formations under ten (10) PAOs. Of this, the DGA Works (Federal) audited an expenditure of Rs 116,414.88 million which in terms of percentage is 72.70% of auditable expenditure. In addition, as part of its Audit Plan (2015-16), the DGA Works (Federal) conducted a financial attest audit of the accounts of Pakistan Public Works Department

(Government of Pakistan) and twelve (12) Foreign Aided Projects executed by NHA (10), CAA (1) and HEC (1). The Financial Attest Reports of Pak. PWD has been published separately. The Financial Attest Reports of Foreign Aided Projects have been sent to the stakeholders/development partners through Economic Affairs Division. The significant issues of financial governance and project management relating to Foreign Aided Projects are also included in this Audit Report.

The audit coverage also includes the revenue collection amounting to Rs 86,229.29 million against estimates of Rs 129,991.84 million by the audited entities.

**ii. Recoveries at the instance of audit**

The Directorate General Audit Works (Federal), Islamabad pointed out ‘overpayments’ and ‘recoverables’ amounting to Rs 22,245.92 million. The management accepted the stance of Audit to the extent of Rs 10,015.76 million. Recovery amounting to Rs 413.55 million was made by the audited entities and verified by Audit till the finalization of this Audit Report.

In addition to the above stated recoveries, a sum of Rs 1,695.71 million was recovered by audited entities in relation to audit observations pertaining to previous years. Total recovery of Rs 2,109.26 million was verified by Audit during 2015-16 till the finalization of this Audit Report. The sum included Rs 1,367.74 million pertaining to overpayments and Rs 741.52 million on account of revenue receipt expedited.

**iii. Holding of Departmental Accounts Committee meetings**

Para 5 (f) of System of Financial Control and Budgeting, 2006 issued by Finance Division, Government of Pakistan provides that the Principal Accounting Officer/Additional Secretary or equivalent shall regularly hold meetings of DAC as Chairperson,

with Financial/Deputy Financial Adviser and Director General (Audit) as Members and Chief Finance and Accounts Officer as Member/Secretary to watch the processing of Audit & Inspection Reports and decide upon appropriate measures so as to aid and accelerate the process of finalization of Audit Report.

The Principal Accounting Officers are regularly requested to convene DAC meeting to discuss Audit Reports. During the period from 1<sup>st</sup> July, 2015 till the finalization of this Audit Report, thirty-five (35) DAC meetings were convened by various PAOs. Most of the paras included in this Audit Report have been discussed in DAC meetings. However, PAOs of Ministry of Overseas Pakistanis and Human Resource Development, Aviation Division and Ministry of National Health Services, Regulations and Coordination have not convened DAC meetings to discuss audit paras included in this Audit Report despite requests made by Audit.

#### **iv. Audit Methodology**

Desk audit was carried out to understand systems, procedures and control environment of audited entities. Permanent files of the audited were updated and utilized for understanding the institutional framework of the audited entities. Detailed planning, documentation of findings and quality assurance was conducted. The desk audit also included in-house meetings of Field Audit Teams for experience sharing and reviewing potential risk areas. A Risk Area Digest earmarking potential risk areas was prepared for guidance of the Field Audit Teams. Audit methodology included:

- i. Updating the understanding of the business processes with respect to control mechanism
- ii. Identification of key controls on the basis of prior years' audit experience/special directions from the Auditor General's office

- iii. Prioritizing risk areas by determining significance and risks associated with the identified key controls
- iv. Design/update audit programmes for testing the identified risk conditions
- v. Selection of audit formations on the basis of:
  - a. Materiality/significance
  - b. Risk assessment
- vi. Selecting samples as per sampling criteria/high value items/key items
- vii. Execution of audit programmes
- viii. Identification of weaknesses in internal controls and development of audit observations and recommendations relating to non-compliance of laws, rules, regulations and prescribed procedures
- ix. Evaluating results
- x. Reporting
- xi. Follow-up

**v. Audit Impact**

There has been a positive change in the responsiveness of audited entities towards audit due to continuous functioning of Public Accounts Committee in the recent years. The viewpoint of Audit on financial/technical issues has been acknowledged by DAC/PAC and administrative departments which is a healthy sign for the financial and regulatory discipline in the audited entities.

On pointation of Audit, PHAF has started preparing financial statements and getting the same certified from Chartered Accountant firms.

**vi. Comments on Internal Controls and Internal Audit Department**

The management of audited entities is generally not sensitized to the imperative of strengthening internal control environment within the organizations. The present report has identified a range of irregularities, which have been recurring over the years. The recurrence of these irregularities indicates the systemic issues cropping up either due to inadequate oversight mechanism or ineffective implementation of internal controls. The pre-auditing, expected to apply internal control checks during processing of claims for payment, was weak mainly due to the influence of management.

Although CDA, CAA, NHA and Pak. PWD have an internal audit setup, but the financial irregularities observed during the present audit reflect that this function was not exercised effectively. The efficient functioning of internal audit would have helped the management in effective implementation of internal controls and strengthening the internal control environment in audited entities.

Audit underscores the need for addressing the systemic issues, which are instrumental in occurrence of every irregularity, through a detailed review of the financial management practices.

In case of other audited entities, which do not have internal audit function, Audit emphasizes the need for establishing an internal audit regime in these organizations, directly reporting to the Principal Accounting Officers.

Comments on internal controls, highlighting irregularities are given at Annexure-2.

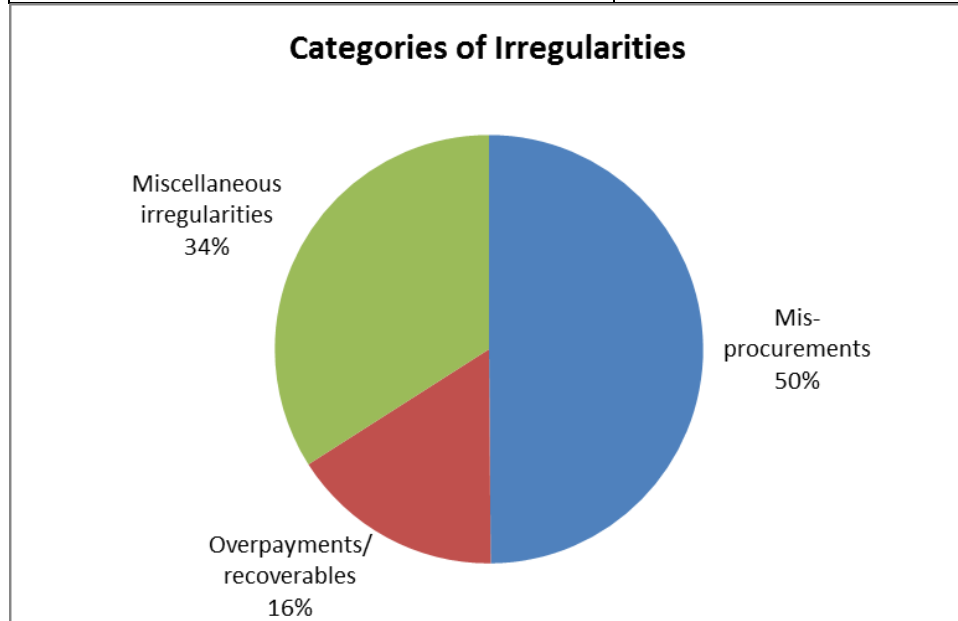
**vii. Key audit findings of the report**

Audit Report contains irregularities which have been clustered as under just to present a graphical view:

- i. Non-adherence to Public Procurement Rules while procuring works, services, goods, awarding concessions, lease, etc.
- ii. Recoverable dues and overpayments to the contractors due to non-adherence to provisions of contract agreement, contract specifications and Pakistan Engineering Council's standard procedure & formula for price adjustments,
- iii. Miscellaneous irregularities, including unauthorized expenditure, non-maintenance of record, etc.

Monetary value of audit observations against these categories is shown in the table and chart below:

<b>Categories of Irregularities</b>	<b>Amount (Rs in million)</b>
Mis-procurements	68,945.64
Overpayments/Recoverables	22,245.92
Miscellaneous irregularities	47,054.24
<b>Total</b>	<b>138,245.80</b>



Major audit findings included in this Audit Report are:

- i. Approval of Layout Plan of Housing Schemes by CDA was not transparent. CDA approved the Layout Plan of schemes on the basis of fictitious land ownership documents, etc. In a case, land reserved for public utilities was transferred in the name of CDA on paper, but the same did not exist physically.<sup>1</sup>
- ii. A commercial plot of a five star hotel near Convention Centre was auctioned by CDA at lesser value which resulted into a loss of Rs 7,492.78 million.<sup>2</sup>
- iii. CDA re-scheduled the payment of dues of Rs 4,009.99 million in respect of a five star hotel “Grand Hyatt” without getting previous consent of Ministry of Finance and concurrence of investigating agencies as advised by the Legal Advisor CDA.<sup>3</sup>
- iv. Revenue of Rs 12,537.64 million on account of aeronautical/non-aeronautical receipts Right of Way charges, toll collection, solid waste management charges, rent, etc. was not realized/recovered by CDA, CAA, NHA, Estate Office, FGEHF and WWB in thirteen (13) cases.<sup>4</sup>
- v. CDA could not recover fine for non-conforming use of residential buildings amounting to Rs 758.10 million.<sup>5</sup>
- vi. Overpayments/irregularities of Rs 2,771.07 million were made by CAA, NHA, Pak. PWD and PHAF to contractors due to incorrect calculation of price escalation and incorrect

---

<sup>1</sup> Paras 2.4.1, 2.4.2

<sup>2</sup> Para 2.4.5

<sup>3</sup> Para 2.4.9

<sup>4</sup> Paras 2.4.19, 3.4.15, 3.4.49, 4.4.30, 4.4.33, 5.4.31, 5.4.32, 5.4.34, 5.4.35, 5.4.36, 8.4.3, 13.4.15, 13.4.17

<sup>5</sup> Para 2.4.47



interpretation/application of price adjustment clause of the respective contract agreements.<sup>6</sup>

- vii. Procurement of works/services valuing Rs 68,945.64 million was made by CDA, CAA, NHA, HEC and PM&DC without calling open tenders/in violation of Public Procurement Rules in seventeen cases.<sup>7</sup>
- viii. Payment of Rs 1,812.60 million was made by Pak. PWD and Frontier Corps against the 'work done' without recording mandatory and certified measurements in the respective Measurement Books in two cases.<sup>8</sup>
- ix. Overpayment of Rs 1,418.32 million was made by CDA, CAA, NHA, Pak PWD, PHAF, HEC and WWB due to higher rates, excessive measurements, re-rating, separate payment of in-built component, non-deduction of rebate, non-adherence to specifications, etc.<sup>9</sup>
- x. Pay & allowances and other employee related benefits amounting to Rs 609.84 million were paid by CDA, CAA and WWF/Bs without approval of Finance Division.<sup>10</sup>

A list, indicating number of audit observations, made during the Audit Year 2015-16, which are considered to be materially less significant for reporting to the PAC, is at Annexure-1 (MFDAC).

### **viii. Recommendations**

- i. Internal controls be strengthened to ensure that irregularities, as reported in this Audit Report, are preempted and fair value

---

<sup>6</sup> Paras 3.4.37, 4.4.34, 4.4.35, 4.4.36, 5.4.15, 5.4.19, 8.4.12

<sup>7</sup> Paras 2.4.6, 2.4.18, 2.4.24, 3.4.3, 3.4.5, 4.4.1, 4.4.3, 4.4.5, 4.4.6, 4.4.7, 4.4.12, 4.4.16, 4.4.17, 4.4.24, 4.4.47, 12.4.2, 14.4.1

<sup>8</sup> Paras 5.4.2, 10.4.1

<sup>9</sup> Paras 2.4.54, 2.4.60, 2.4.61, 2.4.63, 3.4.25, 3.4.31, 3.4.35, 3.4.36, 3.4.42, 4.4.20, 4.4.21, 4.4.22, 4.4.38, 4.4.45, 4.4.48, 4.4.50, 4.4.53, 4.4.54, 4.4.56, 4.4.57, 4.4.58, 4.4.59, 4.4.60, 4.4.61, 4.4.62, 4.4.63, 4.4.64, 4.4.65, 4.4.68, 4.4.69, 4.4.72, 4.4.73, 4.4.74, 4.4.75, 4.4.76, 4.4.77, 4.4.78, 4.4.79, 4.4.82, 4.4.84, 4.4.85, 4.4.90, 4.4.91, 5.4.26, 8.4.8, 8.4.9, 8.4.11, 12.4.5, 12.4.6, 12.4.7, 12.4.8, 13.4.20

<sup>10</sup> Paras 2.4.17, 3.4.6, 3.4.10, 3.4.11, 13.4.2, 13.4.3, 13.4.5, 13.4.6, 13.4.7, 13.4.8, 13.4.9

for money is obtained from public spending.

- ii. Fact finding inquiries and disciplinary actions be initiated to fix responsibility in respect of cases involving misappropriation, fraud, overpayments, losses and irregular expenditure.
- iii. All receipts be realized in time and deposited in the treasury/relevant account.
- iv. Public Procurement Rules, 2004 be adhered to in letter and spirit while making procurement of goods, services and works.
- v. Coordinated measures be put in place to remove encroachments on state lands and structures.
- vi. The Planning Commission's guidelines for approval and funding of projects (project management life cycle) be followed in letter and spirit.
- vii. The contractual obligations be monitored by the management at every stage of contract execution.
- viii. Advances to the contractors be granted strictly in line with contractual provisions and recovered accordingly.
- ix. Public money be kept in authorized accounts only and unspent balances be transferred to government.
- x. Reconciliation of expenditure/revenue be carried out regularly.
- xi. Timely convening of DAC meetings and compliance of the directives of DAC and PAC be ensured.
- xii. Internal controls be periodically reviewed and made capable of forestalling chances of pilferage and defalcation.
- xiii. The Internal Audit Wings in the audited entities be instituted/strengthened to act as facilitator in this regard.

## SUMMARY TABLES AND CHARTS

**Table 1: Audit Work Statistics**

(Rs in million)

S. No.	Description	No.	Budget
1.	Total Entities (Ministries/PAOs) in Audit Jurisdiction	10	382,783.48*
2.	Total formations in audit jurisdiction	271	
3.	Total Entities (Ministries/PAOs) Audited	10	382,783.48*
4.	Total Formations Audited	144	287,791.38**
5.	Audit and Inspection Reports	144	
6.	Special Audit Reports	-	-
7.	Performance Audit Reports	-	-
8.	Other Reports		
	a. Financial Attest of Pak. PWD accounts	01	8,120.33
	b. Foreign Aided Projects***	12	31,757.34

\* This figure includes budget estimates of respective audited entities (Rs 252,791.64 million) and their estimated revenue receipts (Rs 129,991.84 million). Actual expenditure was Rs 160,134.41 million whereas actual receipts were Rs 86,229.29 million.

\*\* This figure represents total budget allocation (Rs 164,622.48 million) and estimated receipts (Rs 123,168.90 million) of the formations audited. The actual expenditure of the formations audited was Rs 116,414.88 million and actual receipts were Rs 84,424.52 million.

\*\*\* Significant issues of regularity aspect relating to Foreign Aided Projects are also included in this Audit Report.

**Table 2: Audit Observations classified by Categories**

(Rs in million)

S. No.	Description	Monetary Value of Audit Observations
1.	Unsound asset management	3,933.49
2.	Weak financial management	37,679.53
3.	Weak internal controls relating to financial management	96,632.78
<b>Total</b>		<b>138,245.80</b>

**Table 3: Outcome Statistics****(Rs in million)**

S. No.	Description	Expenditure on Acquiring Physical Assets (Procurement)	Civil Works	Receipts	Others	Total current year	Total last year
1.	Outlays Audited	7,352.31	98,612.93	123,168.90	58,657.24	287,791.38	200,071.12
2.	Monetary Value of Audit Observations	609.36	95,957.57	24,835.47	16,843.40	138,245.80	43,920.82
3.	Recoveries pointed out at the instance of Audit	66.39	4,372.32	15,736.27	2,070.94	22,245.92	11,979.71
4.	Recoveries Accepted/ Established at the instance of Audit	66.39	768.96	9,177.31	3.10	10,015.76	5,410.58
5.	Recoveries Realized at the instance of Audit	-	1,367.74	741.52	-	2,109.26	2,632.12

Note: Recovery realized includes total recovery verified from July 2015 to February 2016.

**Table 4: Irregularities pointed out****(Rs in million)**

S. No.	Description	Monetary Value of Audit Observations
1.	Violation of rules and regulations and violation of principle of propriety in public operations	78,962.89
2.	Reported cases of fraud, embezzlement, thefts and misuse of public resources	3,725.42
3.	Quantification of weaknesses of internal control systems	45,418.69
4.	Recoveries and overpayments, representing cases of established overpayment or misappropriation of public monies	10,015.76
5.	Non-production of record	123.04

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

<b>S. No.</b>	<b>Description</b>	<b>Current Year</b>	<b>Last Year</b>
1.	Outlays audited	287,791.38	200,071.12
2.	Expenditure on Audit	138.71	132.87
3.	Recoveries realized at the instance of Audit	2,109.26	2,632.12
	Cost-Benefit Ratio	1:15.21	1:19.81

Note: Current year's figures are upto February 2016 while previous year's figures are for whole year from July 2014 to June 2015.



## **CHAPTER 1**

### **PUBLIC FINANCIAL MANAGEMENT ISSUES (PAKISTAN PUBLIC WORKS DEPARTMENT)**

Pakistan Public Works Department (Pak. PWD) maintains its accounts as a self-accounting entity. Directorate General Audit Works (Federal), Islamabad conducted Financial Attest Audit of the Appropriation Accounts of Pak. PWD for the financial year 2014-15, as per Section 7 of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001. The results of Financial Attest Audit were reported to the Department through Management Report. An un-qualified Auditor's Opinion was issued on the Appropriation Accounts of Pak. PWD for the financial year 2014-15. However, significant aspects of the financial governance or economical and effective utilization of public resources, observed during Compliance with authority audit of Pak. PWD have been included in Chapter 5 of this Audit Report.

Audit para regarding irregularity in budget utilization is as follows:

#### **1.1 AUDIT PARA**

##### **1.1.1 Irregular Supplementary Grants after cut-off date and non-utilization of funds**

According to Para-2 (ii) & (iii) of Finance Division (Expenditure Wing) Circular No.F-5(3) Exp-III/2009 dated 10<sup>th</sup> April, 2010, all releases of funds for development /non- development expenditure be completed by Ministries/Divisions by 15<sup>th</sup> May. Release of inevitable nature, if any after the said date, would only be made by the Finance Division, after ensuring that the funds are likely to be expended well before the close of the financial year. Under sub-para (iii), there should be no re-appropriation/ Supplementary Grant after 15<sup>th</sup> May to ensure timely processing of claims by the Ministries/Divisions/Departments.

Review of Appropriation Accounts of Pak PWD for the financial year 2014-15 indicated that supplementary grant of Rs 561.29 million was obtained after cut-off date i.e. 15<sup>th</sup> May, 2015. An expenditure of Rs 181.34 million was incurred leaving a surplus fund of Rs 379.95 million. Supplementary grant after cut-off date i.e. 15<sup>th</sup> May, 2015 was in violation of aforesaid rules, as funds to the extent of 32.31% only could be utilized by the Department up to 30<sup>th</sup> June, 2015.

Audit pointed out the irregularity during October 2015. The Department replied that funds amounting to Rs 561.29 million were provided through three releases of Rs 381.00 million, Rs 174.29 million and Rs 6.00 million by the Planning and Development Division/Finance Division at the closing days of June, 2015, therefore, it was not possible to utilize these funds. Out of Rs 211.2 million (Total surrendered amount under grant No.141-Capital Outlay) release of Rs 142.88 million was made by the Finance Division prior to surrender of funds. The released amount was deposited into government account and Rs 155.80 million were withheld by the Planning and Development /Finance Division.

The reply was not tenable because no re-appropriation/supplementary grant were to be made after 15<sup>th</sup> May without ensuring timely processing of claims by the Ministries/Divisions/Departments. Non-utilization of funds clearly indicated that supplementary grant was unduly made/provided.

Audit recommends that measures be taken to improve planning mechanism and internal controls for efficient utilization of funds.



## **CHAPTER 2**

### **CAPITAL DEVELOPMENT AUTHORITY (CAPITAL ADMINISTRATION AND DEVELOPMENT DIVISION)**

#### **2.1 Introduction**

Capital Development Authority (CDA), established under the CDA Ordinance promulgated on 27<sup>th</sup> June, 1960, is governed through an Executive Board, constituted by the Federal Government, under Section 6 of CDA Ordinance, 1960. Secretary, Capital Administration and Development Division is the Principal Accounting Officer of CDA. The major objectives/services entrusted to CDA include:

- Development of new Sectors
- Municipal Services
- Allotment and transfer of plots
- Maintenance of Sectors
- Provision of health and medical services in Islamabad and Federal Capital Territory
- Traffic engineering and signals control
- Rescue Service 1122 in Islamabad

Member (Finance), CDA is in-charge of the Finance/Accounts Wing and is responsible for preparation of budget and allocation/distribution of funds to different Divisions/Formations.

Major resources of receipts of CDA include:

- Revenue generated from sale of plots, municipal receipts, sanitation receipts, environmental/horticulture receipts, property tax, toll tax, water charges, conservancy charges, interest/markup, commercial receipts (rent from shopping centres, bus stands), etc.,
- Grant-in-aid from Federal Government for development purpose through Public Sector Development Programme,

- Grant-in-aid from Federal Government for maintenance of specified government buildings (Maintenance Grant).

## 2.2 Comments on Budget and Accounts (Variance Analysis)

Comments on 'Receipt and Expenditure Account' of CDA for the financial year 2014-15 are as under:

### (A) Expenditure:

Budget allocation and expenditure for the financial year 2014-15 is shown in the table below:

(Rs in million)

Type of Funds	Budget Allocation	Actual Receipt of funds	Actual Expenditure	Variation Excess/ (Saving)	Excess/ (Saving) in %
<b>(A) Non-Development</b>					
Maintenance Grant	1,957.00	2,121.82	2,157.22	35.40	1.67
Revenue Account	6,287.40	2,921.43	10,781.57	7,860.14	269.05
<b>Sub-Total (A)</b>	<b>8,244.40</b>	<b>5,043.25</b>	<b>12,938.79</b>	<b>7,895.54</b>	<b>156.56</b>
<b>(B) Development</b>					
PSDP	1,944.85	938.69	753.28	(185.41)	(19.75)
Self-Financing	28,299.31	11,040.46	4,409.63	(6,630.83)	(60.06)
<b>Sub-Total (B)</b>	<b>30,244.16</b>	<b>11,979.15</b>	<b>5,162.91</b>	<b>(6,816.24)</b>	<b>(56.90)</b>
<b>Total (A) + (B)</b>	<b>38,488.56</b>	<b>17,022.40</b>	<b>18,101.70</b>	<b>1,079.30</b>	<b>6.34</b>
<b>(C) Non-Budget</b>					
Other debts and deposits	-	2,633.82	2,151.27	(482.55)	(18.32)
Remittance	-	1,123.95	-	(1,123.95)	(100.00)
<b>Sub-Total (C)</b>	<b>-</b>	<b>3,757.77</b>	<b>2,151.27</b>	<b>(1,606.50)</b>	<b>(42.75)</b>
<b>Grand Total (A)+(B)+(C)</b>	<b>38,488.56</b>	<b>20,780.17</b>	<b>20,252.97</b>	<b>(527.20)</b>	<b>(2.54)</b>

- Funds of Rs 6,287.40 million were allocated in Revenue Account (expenditure on establishment and maintenance from CDA's self-generated revenues) against which Rs 2,921.43 million (46.46%) were received during 2014-15. Expenditure of Rs 10,781.57 million was incurred with an excess of Rs 7,840.14 million (269.05%) over the actual revenue.
- Funds of Rs 1,944.85 million were allocated in the Public Sector Development Programme for the year 2014-15 against which Rs 938.69 million were released. This constituted only 48.27% of the allocation. Expenditure of Rs 753.28 million was incurred. There was a saving of Rs 185.41 million (19.75%) which showed that funds placed at the disposal of the Authority were not utilized fully.
- An allocation of Rs 28,299.31 million was earmarked for the development activities under the head 'Self-Financing' against which, actual funds of Rs 11,040.46 million (39.01%) were realized but an expenditure of Rs 4,409.63 million was incurred. This indicated that CDA could only achieve 15.58% of planned targets/objectives of development activities.
- From the above, it is evident that the development funds were not fully utilized during 2014-15 and there was a saving of 56.90%. On the other hand, there was an excess of 156.56% in non-development budget. This indicated that non-development expenditure was on rise and development activities were not being given priority. In other words expenditure on non-developmental activities was incurred at the cost of development expenditure.

**(B) Receipts:**

Receipts of CDA from its own resources are as follows:

(Rs in million)

Description	2013-14	2014-15	Difference	Difference in %age
<b>Self-Financing Sector</b>				
Estimated Receipts	27,174.25	35,735.62	8,561.37	31.51
Actual Receipts	13,642.08	11,040.46	(2,601.62)	(19.07)
Shortfall	13,532.17	24,695.16		
Shortfall in %age	49.80	69.11		
<b>Other Receipts</b>				
Estimated Receipts	6,582.10	6,287.40	(294.70)	(4.48)
Actual Receipts	3,094.35	2,921.43	(172.92)	(5.59)
Shortfall	3,487.75	3,365.97		
Shortfall in %age	52.99	53.54		
<b>Total Receipts</b>				
Estimated Receipts	33,756.35	42,023.02	8,266.67	24.49
Actual Receipts	16,736.43	13,961.89	(2,774.54)	(16.58)
Shortfall	17,019.92	28,061.13		
Shortfall in %age	50.42	66.78		

As per CDA accounts for the year 2014-15, the estimated receipts under self-financing were Rs 35,735.62 million against which Rs 11,040.46 million were actually realized (30.89% of the estimates) and estimated 'other receipts' were Rs 6,287.40 million while Rs 2,921.43 million only were realized (46.46% of the estimates). This showed a shortfall of Rs 3,365.97 million (53.54%) in collection of 'other receipts'. The 2014-15 receipts were Rs 2,921.43 million that were even lesser than 2013-14 receipts of Rs 3,094.35 million by Rs 172.92 million (9.59%) while the shortfall in collection of estimated targets increased from 52.99% in 2013-14 to 53.54% during 2014-15.

There was a shortfall of Rs 28,061.13 million (66.78%) against overall estimated receipts of Rs 42,023.02 million as the Authority could generate a revenue of Rs 13,951.84 million during 2014-15. This indicated that either the estimates of receipts were overambitious/unrealistic or the Authority failed to exploit the available resources to derive due benefits. CDA should improve and rationalize mechanism of estimation and realization of revenues.

Comments on 'Receipt and Expenditure Account' of CDA for the year 2014-15 are as under:

### **2.2.1 Accounts not maintained in accordance with Section 44(1) of CDA Ordinance, 1960**

As per Section 42(1) of the CDA Ordinance, 1960, the accounts of the Authority shall be audited by not less than two auditors holding certificates under section 144 of the Companies Act, 1913 (VII of 1913), who shall be appointed by the Federal Government, in consultation with the Auditor General of Pakistan on such remuneration, to be paid by the Authority, as the Federal Government may fix, and the Auditor General shall have the power to give directions to the auditors in regard to the extent and method of their audit subject to the provisions of the Companies Act, and to prescribe the forms of accounts to be maintained by the Authority consistent with the requirements of this Ordinance. Every auditor appointed under sub-section (1) shall be given a copy of annual balance sheet of the Authority, and shall examine it together with the accounts and vouchers relating thereto.

The Accounts of CDA do not conform to the requirements of CDA Ordinance, 1960 and balance sheet is not being prepared and got audited.

### **2.2.2 Negative balance appearing in Accounts since FY 2005-06 against Khanpur Dam (Capital Account item) - Rs 102.05 million**

Opening balance of Rs 102.05 million is appearing in the accounts for the financial year 2014-15 under Capital Account (CDA Funds). This amount kept on appearing in the opening balance since financial year 2005-06 and is being carried forward every year. The amount is recoverable from Rawalpindi Cantonment Board as share of expenditure on Khanpur Dam.

### **2.2.3 Heavy closing balances with DDOs - Rs 944.61 million**

According to CDA Procedure Manual, money realized, whether in cash or through cheque, should be deposited by DDOs immediately in the bank account of the Authority. There was a balance of Rs 944.61 million with DDOs as on 30<sup>th</sup> June, 2015. CDA should take measures to get the amount deposited into the main account.

### **2.2.4 Non-preparation of Proforma Accounts**

Para 389 (Chapter-VII) of CDA Procedure Manual Part-III provides that the Machinery Pool Organization (MPO) has been established for departmental purposes. Its accounts should therefore, be maintained in such a way as to enable the organization to prepare its Proforma Account annually. The accounts will facilitate review of financial results of the organization at the end of every year. Proforma Accounts of MPO and other semi-commercial formations like Central Engineering Laboratory and Convention Centre, Islamabad have not been prepared.

### **2.2.5 Expenditure in excess of receipt in the head 'Grant-in-Aid Revenue'**

There was negative opening balance of Rs 2,248.92 million on 1<sup>st</sup> July, 2014 under 'Grant-in-Aid'. CDA received Rs 938.59 million and

incurred expenditure of Rs 735.27 million during the year 2014-15. Thus increasing the overall excess to Rs 2,063.50 million upto 30<sup>th</sup> June, 2015.

### **2.2.6 Utilization of “Deposits” towards expenditure without authorization**

Deposits of Rs 5,976.88 million were with CDA on 30<sup>th</sup> June, 2015 (security deposits of contractors - Rs 1,917.63 million, GPF of Employees - Rs 886.47 million, Pension Funds - Rs 454.47 million, Misc. deposits - Rs 629.65 million and deposits for execution of works - Rs 2,088.66 million) but the cash balance showed Rs 4,391.28 million in CDA Account. This indicated that deposits of Rs 1,585.60 million were utilized to meet its expenses without any authorization.

### **2.3 Brief comments on the status of compliance with PAC’s directives**

Compliance position of PAC’s directives on Audit Reports relating to CDA is as under:

<b>Year</b>	<b>Total Paras</b>	<b>No. of Paras Discussed</b>	<b>Compliance made</b>	<b>Compliance awaited</b>	<b>Percentage of compliance</b>
1988-89	07	07	04	03	57.14
1989-90	04	04	04	-	100
1990-91	21	21	21	-	100
	SAR-9	9	8	1	88.89
1991-92	17	17	12	05	70.59
1992-93	37	37	37	-	100
1993-94	57	57	07	50	12.28
1994-95	15	15	09	06	60
1995-96	28	28	01	27	3.57
1996-97	32	32	24	8	75.00
	SAR	05	05	-	100
	PAR	01	-	01	-
1997-98	312	312	214	98	68.58
1998-99	79	79	63	16	79.75

<b>Year</b>	<b>Total Paras</b>	<b>No. of Paras Discussed</b>	<b>Compliance made</b>	<b>Compliance awaited</b>	<b>Percentage of compliance</b>
	2 SAR	2 SAR	1 SAR	1 SAR	50.00
1999-00	86	86	72	14	83.72
	1 SAR	1 SAR	1 SAR	-	100
	2 PAR	2 PAR	2 PAR	2 PAR	-
2000-01	73	73	58	15	79.45
	184-SAR	184	108	76	58.69
2001-02	45	45	42	03	93.33
2003-04	27	27	16	11	59.26
	22 SAR	22	19	3	86.36
	05 PAR	05	2	3	40
2004-05	29	29	18	11	62.06
2005-06	57	57	44	13	77.19
2006-07	39	39	19	20	48.72
2007-08	33	33	17	16	51.52
2010-11	27	27	9	18	33.33
2011-12	59	59	4	55	6.79
2012-13	78	78	1	77	1.28

Note: Audit Reports for 1985-86, 1987-88, 2002-03, 2009-10, 2013-14 and 2014-15 have not been discussed by PAC till the finalization of this Audit Report. SAR stands for Special Audit Report and PAR for Performance Audit Report. Other figures represent Annual Regularity Audit Reports.



## **2.4 AUDIT PARAS**

### **Fraud/Misappropriations**

#### **2.4.1 Unauthentic approval of Layout Plan of Housing Scheme on the basis of fake and fictitious documents - Rs 8,198.60 million**

Rule 2 (a) & (b) iii & iv, of ICT Zoning Regulations, 1992 provides that in Zone 2, private sector will be allowed to purchase/acquire land and develop residential schemes on the pattern of residential sectors planned in Zone-1. The boundaries of the schemes shall conform to the configuration of a standard sector inclusive of right-of-way (ROW) of principal inter-sector roads as per provision of Master Plan of Islamabad and permission for such schemes (Zone-2&5) shall be granted by the Authority subject to the condition that development of the scheme shall be in accordance with the layout plan, services plan and building plan as approved by the Authority.

Clause 21 of Modalities & Procedures framed under ICT (Zoning) Regulations, 1992 provides that the CDA shall assume the control of scheme if the sponsor is incapable of completing the scheme after expiry of the extended period of completion.

**2.4.1.1** Audit noted that Layout Plan of Paradise City Housing Scheme in Sector F-16 and F-17 in Zone-2 Islamabad over an area 2,453.43 kanals was approved by CDA on 22<sup>nd</sup> December, 2006. After approval of the Layout Plan, the sponsor was required to fulfill the legal formalities i.e. Mortgage deed of saleable plots, transfer deed, ROW/open area of land and engineering design etc. within 90 days upto 21<sup>st</sup> March, 2007 but the same were not submitted. The Layout Plan was withdrawn and public notice was published in the Newspapers on 15<sup>th</sup> March, 2008. The sponsor failed to prove the land ownership of 2,399 kanals within the boundary even after 8 years of issuance of the Layout Plan. Thus the Layout Plan of the Scheme approved was based on unauthentic documents of land ownership. After issuance of Layout Plan the sponsor could not complete the legal formalities and started sale of plots to general public without

developing the land and collected an amount of Rs 5,243.40 million. This resulted in unauthentic approval of Layout Plan of Housing Scheme for Rs 5,243.40 million.

Audit observed that the unauthentic approval of Housing Society was due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

The matter was taken up with the management in December 2014. The Authority did not respond to audit observation.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that matter be investigated for fixing responsibility and taking action against persons responsible for the violation.

(DP. 148)

**2.4.1.2** Audit noted that Layout Plan of M/s RP Corporation (Pvt.) Ltd. (a private housing scheme) was approved on land measuring 1,619 kanals for 931 residential plots and NOC was issued on 11<sup>th</sup> March, 2006 with completion period of 60 months. The sponsor could not start development work after issuance of NOC. The case was referred to NAB for inquiry on 1<sup>st</sup> March, 2007 for investigation. The NAB concluded that the ownership and possession of land measuring only 764 kanals could be verified from land documents produced by the sponsor and fard of 480 kanals was found to be fake and fictitious. An analysis of Fard Jamabandi and other Revenue documents was carried out after 8 years and it was noticed that the society had the ownership/possession of only 861 kanals of scattered land which could not be developed until its conversion into the compact/consolidated ownership and possession and revision of Layout Plan.

Audit observed the developers failed to purchase the required land to accommodate all members of the scheme. After issuance of NOC and

approval of Layout Plan the sponsor was authorized to advertise the scheme comprising of 931 plots over an area measuring 1,619 kanals with 30% mortgage of saleable plots in favour of CDA. The sponsor sold all 931 plots for Rs 2,955.20 million including mortgaged land reserved for basic amenities. The developer could not develop the Scheme despite lapse of nine (09) years. This resulted in unauthentic approval of Housing Scheme based on fake and fictitious documents of land for Rs 2,955.20 million.

Audit holds that the unauthentic approval of Housing Society was caused by weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the irregularity in December 2014. The Authority did not respond to audit observation.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that matter be investigated for fixing responsibility and taking action against persons responsible for the violation.

(DP. 144)

#### **2.4.2 Transfer of land on the basis of Unauthentic Documents - Rs 3,700.00 million**

Para 7 (II) (D) of Modalities & Procedures framed under ICT (Zoning) Regulations, 1992 provides that after approval of Layout Plan, the sponsor shall transfer to the Authority, in the form annexed as Annexure “C” and free of charge, the land reserved for open spaces/parks, graveyard, and land under right-of-way of roads, etc. in the scheme, within 45 days of the clearance of detailed Layout Plan of the scheme.

Audit noted that Layout Plan of National Police Foundation (NPF) Housing Scheme, Sector E-11, Islamabad was approved on 31<sup>st</sup> August,

2004 and NOC was issued on 10<sup>th</sup> June, 2005 over a piece of land measuring 1,325 kanals for 1,195 residential plots. After issuance of Layout Plan, the land reserved for parks, graveyard and public buildings measuring 185 kanals was transferred in favour of CDA vide Transfer Deed No. 4482 dated 25<sup>th</sup> September, 2004 registered with Joint Sub Registrar, Islamabad by NPF but transferred land did not exist at site physically. CDA published a public notice on 01<sup>st</sup> December, 2008 in National Dailies regarding cancellation/withdrawal of Layout Plan and NOC of NPF in Sector E-11. The sponsor filed a writ petition against decision of CDA and Islamabad High Court suspended the order of the Authority on 03<sup>rd</sup> March, 2009. The writ petition was disposed of and as per orders of honourable court the matter regarding excess possession of land by NPF was to be decided by Director (Land & Rehabilitation) CDA within 02 months but the same was yet to be decided in spite of lapse of more than 05 years. This resulted into a loss of Rs 3,700.00 million (185 kanals @ Rs 20.00 million per kanal).

Audit observed that the irregularity occurred due to non-implementation of court orders and weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the irregularity in December 2014. The Authority did not respond to audit observation.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that matter be investigated for fixing responsibility and taking action against persons responsible for violation.

(DP. 155)

#### **2.4.3 Bogus land compensation in village Bhadana H-16 - Rs 19.92 million**

Para 449 of Procedure Manual Part-III (CDA Accounting Procedure) provides that Acquittance Rolls prepared by Revenue Section

of Land Directorate on the basis of Awards made by the Deputy Commissioner CDA and decision given by the Commissioner on the appeals were to be received in the Land Directorate for pre-audit and payment. Pre-audit of the said Acquittance Roll is carried out by Patwaries posted in that office and test check of "Pre-audit" is exercised by the Assistant Accounts Officer/Accounts Officer. The requisite pre-audit is conducted with reference to directives issued by Chairman CDA, Award made by the Deputy Commissioner, CDA and revenue record viz. village field book, statements, No.I, II & III etc. prepared by the Revenue Staff of Land Directorate. The Acquittance Rolls after pre-audit test check, bearing payment order of Accounts Officer (Lands), are passed on to the Acquittance Rolls/Payment Clerk for record and payment.

Audit noted that Director Land & Rehabilitation, CDA made entry of 740 kanals of land for construction of Jail in Sector H-16 at Serial No. 82/2 of Acquittance Roll of Mouza Bhadana, H-16, Islamabad in the name of Mr. Muhammad Tazeer S/o Samunder Khan (holding CNIC No. 37405-0293423-3) for payment of compensation worth Rs 19.92 million.

Audit observed that the above claimant had no land in the Mouza Bhadana and thus the said entry in the Acquittance Roll was a false entry, made without proper scrutiny and reconciliation of record.

Audit pointed out irregularity in April, 2015. The Authority did not respond to audit observation.

The matter could also not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that matter be investigated at an appropriate level for fixing responsibility against the person(s) at fault and recovery of the amount paid to the false claimant.

(DP. 208)

#### **2.4.4 Fake payment on account of land compensation on the basis of forged claims - Rs 5.50 million**

As per Expenditure Sanction for acquisition of land, following procedures were to be fulfilled:

- i. Payment shall be released as per compensation statement duly vetted/ pre-audited by the Accounts Officer (Land Audit), CDA.
- ii. Before payment, it may be ensured that no duplication/double payment is committed in the case and it is strictly in accordance with High Court decision.
- iii. All required codal formalities are fulfilled before making payment to the genuine affectees.

Audit noted that Director Land & Rehabilitation, CDA made payment of Rs 5.50 million during the year 2013-14 on account of land compensation for Mouza Pind Sangral on the basis of forged claims. A fact finding inquiry was ordered vide Assistant Director (Confidential)'s letter No. CDA-5(720/HRD-I/2013/1669 dated 27<sup>th</sup> October, 2014 but fate of the inquiry was not forthcoming from the record of the Land Directorate CDA. Relevant accounts record i.e. Original Award of Mouza Pind Sangral along with Acquittance Rolls, original file and compensation amount paid to each affectee, was requisitioned, but the same was not produced to Audit. Review Order of Deputy Commissioner CDA dated 30<sup>th</sup> August, 1988, 20<sup>th</sup> October, 1990 and 10<sup>th</sup> November, 1990, advice register for the period from 04<sup>th</sup> September, 2007 to 31<sup>st</sup> December, 2007 and checklist for clearing/payment of such compensation or allotment of plots to the affectees were also demanded but not provided to Audit for scrutiny. In absence of said record, payment on account of land compensation of Rs 5.50 million became doubtful.

Audit holds that the payment was made due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the irregularity in April 2015. The Authority did not respond to audit observation.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends finalization of the inquiry proceedings at the earliest, besides disciplinary action against the person(s) responsible.

(DP. 211)

### **Irregularity and Non-Compliance**

#### **2.4.5 Loss due to auction of Five Star Hotel plot at lesser rates - Rs 7,492.78 million**

Rule 29 of Public Procurement Rules, 2004, provides that procuring agencies shall formulate an appropriate evaluation criterion listing all the relevant information against which a bid is to be evaluated. Such evaluation criteria shall form an integral part of the bidding documents. Failure to provide for an unambiguous evaluation criteria in the bidding documents, shall amount to mis-procurement.

Audit noted that Director Project Management Office, CDA auctioned a plot measuring 13.45 acres (65,098 square yards) for a Five Star Hotel “Grand Hyatt” near Convention Centre Islamabad, in March, 2005 @ Rs 75,000 per square yard offered by M/s BNP Group.

Audit observed that a plot of Centaurus Shopping Mall F-8/G-8 was auctioned in the same period under the same administration for which a rate of Rs 190,100 per square yard was offered and accepted. Thus lesser rate for commercial plot of Five Star Hotel near Convention Centre was accepted which resulted into a loss of Rs 7,492.78 million (Rs 190,100 – Rs 75,000 = Rs 115,100 × 65,098 sq yards).

Audit holds that loss of revenue occurred due to lack of proper assessment/evaluation mechanism for commercial plot in Costing Section of CDA.

Audit pointed out the loss in March-April, 2014. The Authority did not respond to audit observation.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that responsibility may be fixed for allotment of valuable plot at lesser rates.

(DP. 186)

#### **2.4.6 Irregular/Unauthentic acceptance of bid offered by firm, not fulfilling pre-qualification criteria - Rs 4,882.50 million**

Rule 15 of Public Procurement Rules, 2004 provides that a procuring agency, prior to the floating tenders, invitation for proposals or offers during procurement proceedings, may engage in pre-qualification of bidders in case of services, civil works, turnkey projects and in case of procurement of expensive and technically complex equipment to ensure that only technically and financially capable firms having adequate managerial capability are invited to submit bids. Such pre-qualification shall solely be based upon the ability of the interested parties to perform that particular work satisfactorily. Rule 16 *ibid* further provides that the procuring agency shall announce all information required for pre-qualification including instructions for preparation and submission of the pre-qualification documents, evaluation criteria, list of documentary evidence required by suppliers or contractors to demonstrate their respective qualifications and any other necessary information.

Audit noted that Director, Project Management Office CDA, Islamabad evaluated pre-qualification documents submitted by Joint Venture (JV) M/s BNP Group, comprising Bismillah Textile Ltd.; Niagra Mills (Pvt.) Ltd.; Paragon City (Pvt.) Ltd. and Belhassa Group UAE. After



declaration of the bid for sale of a plot for Five Star Hotel, the Group re-introduced itself as BNP (Pvt.) Ltd.

Audit observed that documents relating to change of status of the JV as M/s BNP Group were not available on record. Under the provisions of Companies Ordinance 1984, authorization / approval of Securities and Exchange Commission of Pakistan (SECP) was mandatory for changing nomenclature of an existing company, which was not obtained by the CDA before acceptance of bid and issued offer letter to M/s BNP (Pvt.) Ltd. It is worth mentioning that M/s BNP Group was pre-qualified with Brand chain International Le-Meridian, a franchise without authenticity of JV. Later on M/s BNP (Pvt.) Ltd. showed M/s Grand Hyatt as their franchise brand. It transpired from the stated facts that process of pre-qualification was hardly transparent.

Audit holds that irregularity occurred due to ineffective internal controls which failed to prevent opportunity of collusive practices.

Audit pointed out the irregularity in March-April 2014. The Authority did not respond to audit observation.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that responsibility be fixed against the person involved in process of pre-qualification and award.

(DP. 183)

#### **2.4.7 Irregular acceptance of bid without fulfillment of pre-qualification criteria**

As per Notice for pre-qualification published by Director Estate Management-II CDA Islamabad in October 2004 for allotment of Five Star Hotel plot measuring 13.4 acres adjacent to Convention Centre Islamabad, the site was to be leased out for a period of 33 years extendable by two further terms of 33 years each, through auction amongst pre-

qualified parties on the basis of sound financial status, possessing vast experience in the field to a firm holding a franchise from internationally recognized chain of hotels. Following additional conditions were to be confirmed by the successful bidder;

- i. Pay full price of the plot.
- ii. Submit an authentic agreement with the leading international chain of hotels for opening the Five Star Hotel in collaboration with the allottee.
- iii. Obtain approval of building plan conforming to Five Star Hotel requirements and in accordance with prescribed building regulations.
- iv. Tender a bank guarantee worth Rs 20.00 million in favour of CDA, which would be en-cashable in case the allottee fails to adhere to the approved plan or does not complete building within a period of 36 months.

Audit observed that Planning Wing, CDA did not carry out prequalification of bidders effectively and vigilantly. M/s BNP Group was prequalified as Joint Venture (JV) with M/s Le-Meridian as its franchise, without obtaining details of the JV either registered with Securities and Exchange Commission of Pakistan (SECP) or Pakistan Engineering Council (PEC). Financial status of the JV was also not confirmed with sound evidence.

Audit observed that copy of an authentic agreement with Le-Meridian extended by M/s BNP Group was not obtained before prequalification of M/s BNP. This resulted in irregular/un-authentic qualification of an inexperienced firm, which badly failed to fulfill the accepted conditions.

Audit holds that this violation occurred due to inadequate oversight mechanism in exercising the relevant internal controls.

Audit pointed out the violation in March-April, 2014. The Authority did not respond to audit observation.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends early regularization and fixing responsibility against the person(s) responsible.

(DP. 190)

#### **2.4.8 Non-obtaining of Bank Guarantee for 85% balance payment on account of Grand Hyatt Hotel plot - Rs 4,149.99 million**

As per approved condition of payments for auction of plot of Five Star Hotel Grand Hyatt near Convention Centre Islamabad, it was provided that 85% of balance payment should be secured through Irrevocable Bank Guarantee from an International or Scheduled Bank. It was also provided in the offer letter dated 16<sup>th</sup> June, 2005 that possession of land shall be handed over after depositing 15% of the cost of the land and upon furnishing irrevocable Bank Guarantee for the balance payment, acceptable to CDA.

Audit observed that Director PMO, CDA did not obtain mandatory irrevocable bank guarantee for Rs 4,149.99 million from M/s BNP (Pvt.) Ltd. thereby exposing the public interest to risk. This also constituted a financial favour to the bidder, who was facilitated to save cost of bank guarantee charges. This resulted in non-obtaining of bank guarantee amounting to Rs 4,149.99 million.

Audit holds that non-obtaining of bank guarantee was caused by weak internal/financial controls.

Audit pointed out the irregularity in March 2014. The Authority did not respond to audit observation.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends investigation into the matter and fixing of responsibility for violation of approved terms and conditions of allotment of plot.

(DP. 185)

**2.4.9 Unlawful/Unjustified rescheduling of payment in respect of Five Star Hotel “Grand Hyatt” without vetting - Rs 4,009.99 million**

As per approved conditions and Bye-Laws for Five Star Hotel adjacent to Convention Centre Islamabad, 15% of the total cost was to be deposited in 45 days. Rest of the payment (85%) was to be made in fifteen (15) yearly installments with interest rate based on KIBOR. This had to be secured through provision of irrecoverable bank guarantee from an international/scheduled bank.

CDA leased out 13.50 acres of land adjacent to Convention Centre for construction of Five Star Hotel Complex against a bid price of Rs 4,882.35 million on 28<sup>th</sup> July, 2005. 15% of the bid amount i.e. Rs 732.35 million was paid. Audit noted that Director Project Management Office, CDA failed to receive due balance payments @ Rs 276.67 million per annum (Rs 4,150.00 million / 15) from M/s BNP (Pvt.) Ltd. from June 2006 with markup based on six (6) months Karachi Interbank Offered Rate (KIBOR). Despite default of M/s BNP (Pvt.) Ltd. in making payment of due annual installments, Bank Guarantee was not got encashed by CDA.

Audit observed that on the request of the purchaser an amendment in payment schedule was prepared by the Director PMO which was negotiated by Member Finance, CDA and ratified by the CDA Board with the following conditions:

- i. Withdrawal of writ petition by BNP (Pvt.) Ltd. lodged for damages of Rs 6,000.00 million.
- ii. M/s BNP (Pvt.) Ltd. will not request for any re-scheduling in future for any other reason.
- iii. M/s BNP (Pvt.) Ltd. shall abide by any decision/outcome of ongoing inquiries being conducted by the investigating agencies regarding the subject project and will not hold CDA liable for any damages/loss out of any such outcome.
- iv. No grace period shall be allowed.
- v. Only initial installment i.e. 2012 to 2014 shall be without interest.
- vi. BNP (Pvt.) Ltd. will be permitted to redesign part of the project while staying within the FAR limit on which land was purchased.
- vii. The amending agreement is the integral part of the sale agreement dated 28<sup>th</sup> July, 2005.

A sum of Rs 872.36 million was received from the lessee and payment of remaining Rs 4,009.99 million was rescheduled from the year 2012 to 2026. Audit holds that re-scheduling of payment due from M/s BNP (Pvt.) Ltd. was made without lawful authority and getting previous consent of Ministry of Finance, Government of Pakistan and concurrence of investigating agencies as advised by the Legal Advisor CDA vide Note dated 4<sup>th</sup> December, 2012. This resulted into unlawful and unjustified re-scheduling of payment amounting to Rs 4,009.99 million.

Audit holds that unjustified re-scheduling occurred due to non-adherence to the rules/regulations and weak internal/financial controls.

The matter was taken up with the management in March 2014. The Authority did not respond to audit observation.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends investigation into the matter and fixing of responsibility for violation of approved payment schedule without the concurrence of Ministry of Finance, Government of Pakistan.

(DP. 187)

#### **2.4.10 Unauthorized enhancement of height of Grand Hyatt Hotel Tower without approval of Cabinet**

As per approved Bye-Laws for the Five Star Hotel near Convention Centre Islamabad, height of the building was fixed as 65 feet (6 storeys) with reference to the floor level of the existing Convention Centre (including lift rooms, stair hall etc.) The roof height of the building was kept at 6 storeys, keeping in view the height adopted for public buildings in the neighboring Area of G-5 Islamabad.

Audit noted that Director Planning Wing CDA, while advertising and finalizing of Design parameters for the Five Star Hotel near Convention Centre, Islamabad, made following amendments/deviations in the design already approved by CDA Board. Number of storeys was kept flexible with essential structural stability. Similarly covered Area was kept flexible (as per design requirement) and number of basements was provided flexible against original design requirements (maximum three).

Audit noted that height of the Five Star Hotel was allowed as flexible in deviation of approved design and later on 47-storey height was allowed, against the approved admissible height of 65 feet (6 storeys) without the approval of the Cabinet through Cabinet Division. The amendments, made without lawful authority, resulted into undue favour to the investors and un-authorized enhancement of height of hotel tower without approval of competent authority. Change in design parameters for high-rise Five Star Hotel was detrimental to public interest and security concerns in Red Zone and Diplomatic Enclave, and also caused a loss to the Authority.

Audit holds that violation occurred due to inadequate oversight mechanism.

Audit pointed out the violation in March-April, 2014. The Authority did not respond to audit observation.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that matter be investigated for fixing responsibility against the person(s) at fault.

(DP. 188)

#### **2.4.11 Irregular disbursement of pension through Post Office instead of bank account - Rs 4,567.78 million**

As per Honourable Supreme Court of Pakistan order's dated 19<sup>th</sup> July, 2007 vide Suo-Moto notice in respect of pensions in Human Rights case No.2492 of 2007 and State Bank of Pakistan circular No.11 dated 06<sup>th</sup> June, 2009 issued to all banks, pension is required to be credited direct in the pensioner's bank account opened in any scheduled bank including National Saving Centers.

Audit noted that Director Accounts, CDA is disbursing pension to its pensioners through Post Offices instead of crediting the same directly in the pensioner's bank account opened in Scheduled Banks including National Saving Centers.

Audit observed that Pension Wing CDA incurred an expenditure of Rs 4,567.78 million during five years (2010-11 to 2014-15) through GPO Islamabad on account of disbursement of pension to the CDA Pensioners. Disbursement of pension through Post Offices was in violation of the orders of Honourable Supreme Court of Pakistan and instructions of State Bank of Pakistan. The system was also not in line with the provision of Para 4.7 of Accounting Policies and Procedure Manual (APPM) of New Accounting Model.

Audit holds that the payment of pension through post offices was in violation of cited rules due to weak internal controls.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit pointed out the irregularity in November 2015. The Authority did not respond to audit observation.

Audit recommends that the orders of the court be implemented in letter and spirit.

(Para 03 of AIR)

#### **2.4.12 Irregular allotment of commercial plot through collusion - Rs 1,071.99 million**

According to Item 3 of part IV of Brochure for Auction dated 18<sup>th</sup> to 20<sup>th</sup> November, 2013 (Mode of Auction), provisional acceptance of bid will be issued in the name of persons in whose name token was issued. In no case additional name(s) will be added other than those mentioned in token slip and clubbing of more than one token shall not be allowed.

Provisional acceptance letter of bid for Rs 1,071.99 million in respect of plot No. 5, Blue Area, Sector F-8/G-8 was issued in the name of Mr. Kamran Khalid on 25<sup>th</sup> November, 2013.

Audit noted that Director, Estate Management-II, CDA, Islamabad allowed inclusion of five other names on the request of successful bidder submitted on 25<sup>th</sup> November, 2013 (acknowledged/diarized on 26<sup>th</sup> November, 2013). The inclusion of five other names in the leasehold was against the provisions of procedure contained in the Brochure.

Audit pointed out the irregularity in November 2015. The Authority replied that on the request of Mr. Kamran Khalid (the successful bidder), a summary was placed before CDA Board and CDA Board



allowed in its meeting on 27<sup>th</sup> November, 2013 through circulation for inclusion of five names in the acceptance of bid letter.

The reply was not tenable. According to auction brochure, approved by the CDA Board there was an explicit ban on inclusion of further names. Here the inclusion was made after issuance of provisional acceptance letter. Approval of the next higher authority was required for overriding the than Board's approval.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

The matter needs condonation from Federal Government.

(Para 05 of AIR)

#### **2.4.13 Unjustified advance payment to the oil companies and non-adjustment through vouched account - Rs 407.10 million**

As per Rules 205-216 of Federal Treasury Rules, every Government officer entrusted with the payment of money should obtain for every payment he makes a voucher setting forth the full and clear particulars regarding the claims and all relevant information necessary for its proper identification and classification in accounts. Every voucher must bear to have attached to it an acknowledgement of payment signed by the person by whom or on whose behalf the claim is put forward.

Audit noted that Director, Machinery Pool Organization (MPO), CDA, made advance payments of Rs 407.10 million during the financial year 2014-15 to Attock Petroleum Ltd., Pakistan State Oil and Shell Pakistan Ltd. for supply of light diesel oil, POL and bitumen.

Audit observed following irregularities/discrepancies in making advance payments to the oil companies:

- i. Formal contract agreements with M/s Attock Petroleum Ltd., Pakistan State Oil, and Shell Pakistan Ltd. were not

made and provided to Audit to check the terms & conditions for supply of fuel and provision of advance payments.

- ii. Rates for supply of light diesel oil and bitumen were not obtained from different oil companies to achieve economical and competitive rates.
- iii. Proper stock taking and inspection of stores and issuance/consumption of material was not made through valid requisitions.
- iv. Adjustment of advance payments through vouched account was not made.

Audit pointed out the irregularity in July, 2015. The Authority replied that advance payment to Oil Marketing Companies for the procurement of fuel (Diesel/Petrol) was made in the light of approval obtained from CDA Board. Such kinds of adjustments were normal practices which were made with the receipt of invoices along with the complete summary from oil marketing companies. In reply it was held that advance payments were adjusted on receipt of oil and invoices on actual basis but record in this regard was not maintained/ produced to Audit.

The matter was discussed in DAC meeting held on 3<sup>rd</sup> February, 2016. The Authority explained that advance payments to the oil companies were made as per approval of the CDA Board and adjustment of the advance payments would be made as per OGRA rates. The Committee directed CDA to streamline the system of advance payments through formal agreements as per provisions of PPRA. Further, stock taking of the oil purchased and its consumption be reconciled and got verified from Audit.

The compliance of DAC's directive was not made till the finalization of this Audit Report.

Audit recommends for developing proper system, early adjustment of advance payments through vouched account besides proper accounting of supplies and consumption.

(DP. 58)

#### **2.4.14 Undue allotment of agro-farm causing loss to Authority - Rs 140.00 million**

According to Item 15 of Chapter 2 of Property Manual, all the allotments of agro-farms will be made through auction as per CDA Board decision.

Audit noted that Director, Estate Management-II, CDA Islamabad, allotted Agro-farm No.51 in Orchard Scheme at Murree Road for Rs 10.00 million under duress of closure of road of Park Enclave Phase-I (a scheme launched in 2011) in May-July, 2015.

Audit observed that the Agro-farm in Orchard Scheme at Murree Road was allotted without open auction in violation of CDA bye-laws. Had the plot been auctioned according to CDA policy, it would have fetched revenue of Rs 150.00 million (approx.) according to prevailing market rate. This resulted in a loss of Rs 140.00 million.

Audit holds that the loss occurred due to weak internal controls.

Audit pointed out the loss in November, 2015. The Authority replied that Estate Agro Farming Plot No.51, measuring 2.50 acres, in Orchard Scheme Murree Road, Islamabad was allotted on the recommendations of CDA Board to affectees of Dhoke Majoohan, Islamabad as rehabilitation benefits to the affectees from whom CDA acquired 100 kanals or more of cultivable land and who were entitled for allotment of one agro farming plot.

The reply was not tenable. The scheme of Park Enclave was launched in the year 2011. Allotment of agro farm under duress of road

closure was not a valid reason. There was no evidence available for law and order situation e.g. FIR, etc.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that matter be investigated for fixing responsibility and action against the person(s) at fault.

(DP. 220)

#### **2.4.15 Undue/Unauthorized allotment of 44 plots to affectees of Bekha Syedan without verification/completion of essential formalities**

As per provisions of Land Sharing formula for land acquisition, following procedures were to be followed:

- i. Handing/Taking over of physical possession of acquired land/Built-up property and issuance of surrender certificates at site.
- ii. Issue of offer of allotment letters to the affectees at site after proper identification by the village Numberdar and after perusal of proof of payment to the affectees.

Audit noted that Director Land & Rehabilitation CDA allotted forty-four (44) plots of different sizes over the signature of Mr. Multan Ali, Deputy Director (current charge) to the Affectees of Bekha Syedan. The said allotment letters were embossed in the office of Director Land & Rehabilitation in presence of the then Member (Estate) CDA.

Audit observed that allotment of the plots was made without obtaining surrender certificates and proper identification of affectees by the revenue staff. This resulted into unauthorized allotment of plots.

Audit pointed out the fictitious allotment of plots in April 2015. The Authority did not respond to audit observation.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that matter be investigated for fixing responsibility and action against person(s) responsible.

(DP. 207)

**2.4.16 Irregularities in construction of Safa Gold Mall, F-7 Markaz, Islamabad**

Rule 5.7(a) Zoning (Building Control) Regulations, 2005 provides that “the plot owners and the architects are advised to start construction only after the plans have been approved by the Authority, as starting of construction without approval is a serious violation, subject to penalty and/or removal of unauthorized construction. They shall also ensure that the construction is being carried out within the allotted property lines leaving the mandatory minimum open spaces (setbacks) and the plinth level have been kept in accordance with the approved plans/bye-laws of the Authority.

Audit noted that Director Building Control, CDA allotted Plot No. 5 titled Safa Gold Mall, F-7 Markaz, Islamabad on 19<sup>th</sup> February, 2010 and possession was handed over on 26<sup>th</sup> May, 2010 for mixed commercial use with following bye-laws:

i.	Size of the Plot	170' x 200' (3,777.77 sq. yds)
ii.	FAR (Floor Area Ratio)	1:5
iii.	Ground Coverage Allowed	100%
iv.	No. of Basement Allowed	02
v.	No. of Storey (s) Allowed	Ground+4
vi.	Land Use	Mixed Commercial & Residential

Audit observed that Director Building Control CDA changed the terms & conditions of the allotment through post-bid amendment by excluding circulation area from covered area and approval was granted on

9<sup>th</sup> April, 2011 for 3 basements plus Ground Floor+7 with mumty and office on top floor against authorized number of storeys Ground + 4 allowed in original allotment letter. Removal notices were issued by the Authority for the following irregularities and approval of 8<sup>th</sup> floor of Safa Gold was suspended vide letter dated 21<sup>st</sup> May, 2015:

- i) Unauthorized construction in 1<sup>st</sup> basement (use of basement for commercial purposes instead of Car Parking).
- ii) Placement of heavy generators on covered Nullah instead of its usage as Car Parking.
- iii) Installation of mechanical system in basement on CDA land, which was allowed for Car Parking.
- iv) Increase in height of roof tower.
- v) Deviation from approved plan.
- vi) Occupancy of building without approval.

Instead of the removal/rectifications of violations, the owner obtained a stay order from the Honourable High Court, Islamabad which was dismissed by the court as the petition had no merits. An inquiry in the matter was conducted by a committee which gave following recommendations:

- a. A detailed inquiry may be conducted to fix the responsibility. In addition disciplinary action may be initiated against the officers who misused their powers, without approval of CDA Board/Government and did not comply with Board's orders; concealed the facts; misinterpreted the decisions; prepared proposals against the rules and regulations in connivance with the allottee and submitted incorrect statements to the inquiry committee.
- b. Finance Wing, CDA may calculate the financial loss inflicted to CDA by allowing concessions to the allottee of Plot No. 5 after allotment. What price this plot would

have fetched if it was auctioned with the following parameters:

i)	FAR	1:8
ii)	Permissible Ground Coverage	100%
iii)	Parking	1 Car space @ 500 sq.ft.
iv)	No. of basement	3 under plinth area and 3 under Public Parking on CDA Land
v)	Permissible No. of Storeys	G+7
vi)	Permission to use CDA Land	By Covering of Nullah, etc.
vii)	Land Use	Mixed commercial and Residential use and 5 Nos. Cinemas on top floor
viii)	Location	Plot shifted 30ft. towards South

- c. The basements of public parking may immediately be taken over by CDA and be used for Public Car Parking after removing all unauthorized installations.
- d. The financial loss may also be calculated in all other cases mentioned in the reply of Deputy Director General (Architecture) where circulation area has been deducted by Building Control Directorate i.e. Plot No. 16-E Markaz F-8, Plot No. 23 Markaz F-11, Plot No. 14-A Markaz Diplomatic Enclave, Plot for Marriage Hall Markaz G-6, and Plot No. 63 D/E Blue Area G-7. The Building Control Directorate may identify other cases of similar nature especially in the sites in Sector F-10 and F-11 where additional storeys were allowed.

Audit pointed out the irregularities in September 2015. The Authority replied that on the basis of inquiry conducted by CDA the

responsible officers have been served upon charge sheet and progress in the matter will be shared after conclusion of the legal process of the charge sheet.

The outcome of the inquiry was not reported till the finalization of this Audit Report.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that an early action in the light of recommendations of the inquiry committee for fixing responsibility and recovery of financial loss caused to the Authority.

(DP. 92)

#### **2.4.17 Unjustified payment of Session Allowance and Diet Charges - Rs 57.07 million**

The CDA Board in its meeting held on 1<sup>st</sup> March, 2006 approved the grant of Session Allowance & Diet Charges to CDA employees working at Parliament House at par with the employees of National Assembly and Senate Secretariat. It was further decided that when sessions of both National Assembly and Senate were running simultaneously, the employees will be entitled for single benefit.

Audit noted that CDA incurred an expenditure of Rs 57.07 million on account of Session Allowance and Diet Charges during the financial year 2014-15.

Audit observed that Session Allowance and Diet Charges were allowed without concurrence from the Finance Division Government of Pakistan. Moreover, these allowances were also allowed to those employees who were not working at Parliament House.



Audit holds that unjustified/unauthorized payment/expenditure on account of Session Allowance and Diet Charges was due to weak internal and financial controls.

Audit took up the matter with the management in October 2015. The Authority replied that CDA Board being competent forum approved grant of Session Allowance and Diet Charges to CDA employees working at Parliament House at par with the employees of National Assembly and Senate Secretariat. The employees deputed at Cabinet Block and Jinnah Convention Center was on the sanctioned strength of Coordination Directorate, Parliament House and Coordination Directorate staff was entitled for these allowances.

The reply was not tenable because Session Allowance and Diet Charges were allowed without concurrence from the Finance Division Government of Pakistan. These allowances were also allowed to those employees who were not working at Parliament House.

The matter was discussed in the DAC meeting held on 3<sup>rd</sup> February, 2016 wherein CDA management explained that the staff deputed at Cabinet Block Jinnah Convention Center, Pak China Friendship Center and Pakistan Monument Shakarparian etc. was on the sanctioned strength of Maintenance Division CDA Parliament House. Accordingly, they were paid Session Allowance and Diet Charges. The Committee was not satisfied with the explanation as the staff deputed in the Cabinet Block, Jinnah Convention Center, Pak China Friendship Center and Pakistan Monument Shakarparian etc. had no concern, whatsoever, with the sessions of the Parliament and directed to get verified the sanctioned/working strength along with place of posting/deployments of the staff to whom the allowance was paid, from Audit within week.

The compliance of DAC's directive was not made till finalization of this Audit Report.

Audit recommends for early compliance of DAC's directive.

(DP.85)

#### **2.4.18 Irregular award of works without calling tenders - Rs 52.87 million**

Rule 12(2) of Public Procurement Rules 2004, provides that all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu. Rule 20 ibid provides that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

General Financial Rule 182 provides that to facilitate the preparation of estimates, as also to serve as a guide in settling rates in connection with contract agreements, a schedule of rates for each kind of work commonly executed should be maintained in each locality and kept up to date.

**2.4.18.1** Audit noted that Directorate of Parks (Development) initiated a work "Construction of 215 feet high National Flag Pole" (Design, manufacture, supply, installation and erection) in June 2014. The work was awarded to M/s Heavy Mechanical Complex (HMC) Taxila at a cost of Rs 21.38 million at their quoted bid, without NIT and competitive bidding in violation of the Public Procurement Rules 2004. Audit further noted that detailed analysis of rate i.e. cost of the material, manufacturing, transportation, erection and installation etc. was not made available, to ascertain the reasonability of rates. The components of erection/installation were added twice in the quotation.

Audit observed that cost of material was claimed and paid to the tune of Rs 14.00 million besides additional sum of Rs 5.00 million on account of transportation and erection. Cost was in no way justified. Construction of foundation for erection of the pole had already been executed by another contractor at a cost of Rs 2.88 million. This resulted into irregular expenditure of Rs 21.38 million.

Audit holds that the Authority compromised transparency, deprived the entity of the advantage of competitive rates and denied a fair opportunity to other prospective bidders for participation in the bidding process.

Audit pointed out the irregularity in July 2015. The Authority replied that due to the complex and unique nature of the project, HMC was approached to execute the work on “Design-cum-construction basis”. Accordingly M/s HMC submitted their quotation for Rs 21.38 million.

The reply was not tenable because neither CDA Engineering Wing analyzed the rates nor any third party was involved to check the reasonability of rates.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

(DP. 113)

**2.4.18.2** The Director Works CDA, Islamabad awarded the work regarding Supply of Furniture for Library, Library Staff & Additional Furniture for Admin Block for Supreme Court of Pakistan to M/s Masood Furniture at agreed cost of Rs 31.49 million on the basis of single quotation. Letter of acceptance was issued on 13<sup>th</sup> November, 2013 and work was to be completed as on 12<sup>th</sup> May, 2014.

Audit observed that work was awarded without advertisement of the notices on the website of the Public Procurement Regulatory Authority as required under the Public Procurement Rules 2004 and in press for achieving competitive and economical rates. This resulted in irregular award of work costing Rs 31.49 million.

Audit holds that the Authority compromised transparency, deprived the entity of the advantage of competitive rates and denied a fair opportunity to other prospective bidders for participation in the bidding process.

Audit pointed out the irregularity in July, 2015. The Authority replied that Chairman CDA accorded approval for award of work on single tender basis.

The reply was not tenable as open tendering could not be dispensed with in the prevailing circumstances.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that matter be investigated for fixing responsibility for violation of rules.

(DP. 139)

#### **2.4.19 Loss to Government due to non-deposit of revenue/profit in Government Account - Rs 49.29 million**

According to Government of Pakistan, Cabinet Secretariat (Cabinet Division) letter No.4/16/2012-CDA-III dated 11<sup>th</sup> June, 2014, “it was decided by FA’s Organization, Finance Division that CDA should deposit all earnings from Pak China Friendship Centre (PCFC) in Government Treasury pending release of the amount required by CDA to meet the operational expenditure of PCFC. The net profit of last financial year amounting to Rs 8.18 million was thus to be deposited in Federal Treasury.

Audit noted that the Deputy Director, Parliament House (Civil), Coordination Directorate CDA, Islamabad received/earned an income of Rs 49.29 million from PCFC, Islamabad during financial years 2013-14 and 2014-15.

Audit observed that earning of PCFC, Islamabad was not deposited into Government Treasury as required under above referred decision of the Finance Division, Government of Pakistan.

Audit holds that non-deposit of receipt into Government account occurred due to weak financial and internal controls.

Audit pointed out the irregularity in October 2015. The Authority did not respond to audit observation.

The matter was discussed in DAC meeting held on 3<sup>rd</sup> February, 2016. The Authority explained that a sum of Rs 24.24 million was received on account of booking charges of Pak China Friendship Center during 2014-15 and the same was remitted to the Government Treasury at the close of the financial year. The Committee directed CDA to get verify the record of total income and its remittance to Government Treasury from Audit within a week.

The compliance of DAC's directive was not made till the finalization of this Audit Report.

Audit recommends that receipt may be deposited into government account at the earliest.

(DP. 83)

#### **2.4.20 Unjustified payment due to execution of costly item beyond the provision of TS estimate - Rs 45.05 million**

As per Para-53 CPWD Code, there are four main stages in the project for execution of works; namely admin approval, expenditure sanction, technical sanction and the appropriation & re-appropriation of funds. Para-56 of CPWD Code provides that for each individual work proposed to be carried out, proper detailed estimate must be prepared for the sanction of competent authority; this sanction is known as the technical sanction to the estimate. As its name indicates, it amounts to no more than a guarantee that the proposals are structurally sound and that estimates are accurately calculated and based on adequate data.

Audit noted that Director, Road Directorate (North), CDA executed and measured an item excavation of surplus hard rock material to

the extent of 175,666.42 Cu.m, which represented 103% excess over the estimated quantity of 86,265 cubic meter provided in the Technically Sanctioned Estimate, without change in design and area of the road. This resulted into excess payment of Rs 45.05 million.

Audit holds that the irregularity was due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the excess payment in July-August 2015. Authority replied that during execution of earth work, rock was encountered hidden under the layers of soft soil. Accordingly, Central Engineering Laboratory was requested to carry out classification of soil. The quantities of hard rock material have been worked out on the basis of classification of the soil made by Central Engineering Lab, CDA.

The reply was not tenable as the item of excavation of hard rock was measured 103% over and above the TS estimate/BOQ on the basis of visual classification which was not admissible. No Lab Test Report was provided. It is further added that any material obtained from the excavation is required to be used efficiently on other items of work like formation of embankments, crush aggregate, stone masonry, retaining walls etc. whereas in the instant case no such effort seems to have been made by the project management.

The matter was discussed in DAC meeting held on 3<sup>rd</sup> February, 2016. The Authority explained that quantity of rock was increased as rock was encountered under the soft soil during excavation. Accordingly Central Engineering Laboratory, CDA was asked to carry out classification of soil. The Committee was not satisfied with the explanation and directed to conduct fact finding inquiry at ministry level with the following composition:

- i. Joint Secretary
- ii. An Engineer of Pak PWD
- iii. Representative of CDA

iv. Representative of Audit

The compliance of DAC's directive was not made till the finalization of this Audit Report.

Audit recommends early compliance of DAC's directive.

(DP. 71)

**2.4.21 Loss due to imprudent reduction in highest declared bid after signing of agreement through post-bid change - Rs 40.00 million**

As per agreement signed between Director Municipal Administration CDA and Raja Fida Hussain Hafeez S/o Muhammad Abbas dated 31<sup>st</sup> January, 2014, highest bid of Rs 90.00 million was accepted for collection of fee for fascia sign boards, petrol/CNG Pumps, Sign Boards and shops/ building wraps, installed in commercial area within the municipal limit of Islamabad for a period of two years.

Audit noted that Director Municipal Administration CDA Islamabad reduced the highest bid of license fee agreed with Raja Fida Hussain Hafeez S/o Muhammad Abbas for Fascia Sign Board from Rs 90.00 million to Rs 50.00 million, on the pretext of meeting of traders with the Chairman CDA, through post bid amendment in June 2015. Reduction in bid amount agreed by the highest bidders resulted in a loss of Rs 40.00 million.

Audit holds that the loss occurred due to lack of oversight mechanism and weak internal and financial controls.

Audit pointed out the loss in August 2015. The Authority did not reply.

Audit recommends investigation into the matter for fixing responsibility and action against the person(s) at fault.

(DP. 199)

#### **2.4.22 Loss due to non-auction of entry ticket of Lake View Park - Rs 11.15 million**

Rule 26 of General Financial Rules (Vol-I) provides that it is the duty of the Departmental Controlling Officer to see that all sums due to Government are regularly and promptly assessed and realized and duly credited in the public account.

Audit noted that Director Parks (Development) CDA awarded a contract for collection of entry ticket at Lake View Park Islamabad for Rs 16.02 million per annum (average Rs 1.33 million per month) on 25<sup>th</sup> October, 2012. The contract expired on 24<sup>th</sup> October, 2013.

Audit observed that after termination of the contract the entry ticket fee was being collected departmentally instead of awarding the work through open tendering. The average amount collected per month during October, 2013 to June, 2014 was Rs 0.80 million only. Similarly during the next financial year 2014-15 the department earned Rs 0.96 million per month. This resulted in a loss of Rs 0.37 million to Rs 0.53 million per month. Departmental collection caused a loss of Rs 11.15 million from October 2013 to June 2015.

Audit holds that loss occurred owing to inadequate oversight mechanism for enforcing relevant rules, regulations and weak financial controls.

Audit pointed out the loss in July 2015. The Authority replied that entry ticket fee was collected departmentally during 2014-15. The receipt was on lesser side as compared to the receipt collected through open auction during 2013-14. However, sale of entry ticket is being outsourced through open auction. The Authority admitted less receipt as compared to the collection of last year through open auction. The Authority failed to offer any lucid reason/justification for the loss.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.



Audit recommends that matter be investigated and loss be made good from the person(s) responsible.

(DP. 114)

**2.4.23 Loss to CDA due to non-crediting of profit by GPO Islamabad on Saving Bank Account - Rs 9.64 million**

According to Accounting Procedure of Pakistan Post Office Department for payment/disbursement of pension to the retired employees, CDA will open a saving bank account titled “CDA pensioners payment fund account” with an initial deposit of Rs 15.00 million. All pension payments to CDA pensioners shall be debited to this account on daily basis. The account shall be recouped by CDA with the amount of pension paid during every week to CDA pensioners payment fund account replenishing the balance to Rs 15.00 million again. Profit at the rates prescribed by Government from time to time shall be allowed on the balance in accordance with saving bank rules.

Audit noted that CDA employees were receiving pension payments from the GPO, Islamabad w.e.f 31<sup>st</sup> December, 1994, the date of signing the first agreement. The initial ceiling of balance Rs 15.00 million was enhanced to Rs 40.00 million and thereafter to Rs 60.00 million.

Audit observed that profit on the balances of CDA pension payment account No.31422 was not credited which worked out to Rs 9.64 million on the basis of half average balances for the last five years as under:

(Rs in million)

S. No.	Year	Ceiling	Average Deposit	Saving Bank Profit Ratio 1 <sup>st</sup> January	Net Profit
1	2011	40.00	20.00	9%	1.80
2	2012	40.00	20.00	8.25%	1.65
3	2013	60.00	30.00	6.65%	1.99
4	2014	60.00	30.00	7.75%	2.33

<b>S. No.</b>	<b>Year</b>	<b>Ceiling</b>	<b>Average Deposit</b>	<b>Saving Bank Profit Ratio 1<sup>st</sup> January</b>	<b>Net Profit</b>
5	2015	60.00	30.00	6.25%	1.87
				<b>Total</b>	<b>9.64</b>

Audit took up the matter with the management in November 2015. Authority did not respond to audit observation.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audi recommends that matter be taken up with the Pakistan Post for crediting of due profit on the pension account.

(Para 5 of AIR)

#### **2.4.24 Mis-procurement without evaluation of single bid - Rs 8.85 million**

Rule 36 (viii) Public Procurement Rules, 2004 provides that after agreement between the procuring agency and the bidders on technical requirements, the bidders who are willing to conform to the revised Technical Specifications and whose bids have not already been rejected shall submit a revised technical proposal and supplementary financial proposal according to the revised technical requirement. Further, Rule 36(x) of Public Procurement Rules, 2004 states that the procuring agency shall evaluate the whole proposal in accordance with the evaluation criteria and the bid found to be the lowest evaluated bid shall be accepted.

Audit noted that Executive Director Capital Hospital, CDA, Islamabad entered into an agreement for purchase of “High Definition Video Processor complete with integrated light source with I-scan and High Definition progressive scanning capability latest imaging software with latest technology” for Rs 8.85 million.

Audit observed that technical bid was offered only by one bidder i.e. M/s Mediland Pakistan Ltd. The bid was evaluated by a Technical Committee, comprising Consultant Physician, Director Planning & Development, a Medical Physicist and an Assistant Director (Bio-Medical) and was declared responsive and technically accepted by the Committee. Audit holds that none of the Members of the Technical Committee was a qualified Bio-Medical Engineer having expertise to evaluate the bid in technical terms, nor was it evaluated by the Committee according to the evaluation criteria provided in Public Procurement Rules. The estimated cost of the item was also not kept in view while accepting the bid. This resulted into mis-procurement worth Rs 8.85 million.

Violation of rules occurred due to weak administrative and technical controls.

Audit pointed out the irregularity in April 2015. The Authority replied that Executive Director Capital Hospital constituted a committee comprising different experts having qualifications and experience in their related fields. Assistant Director Bio-medical was engaged in the light of PPRA Rules.

The reply was not tenable. The evaluation criteria was neither framed as required under PPRA Rules nor was the bid evaluated by the technical committee on the basis of authentic market rates. The technical committee, which evaluated the bid, did not include any technical expert and engineer.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audi recommends investigation for fixing responsibility for violation of Public Procurement Rules as to evaluation criteria.

(DP. 43)

#### **2.4.25 Loss due to award of work at higher rates through re-tendering - Rs 6.46 million**

As per Rule 33 of Public Procurement Rules 2004, the procuring agency may reject all bids or proposals at any time prior to the acceptance of a bid or proposal. The procuring agency shall upon request communicate to any supplier or contractor who submitted a bid or proposal, the grounds for its rejection of all bids or proposals; notice of the rejection of all bids or proposals shall be given promptly to all suppliers or contractors.

Audit noted that Deputy Director Market & Road Maintenance (South), CDA opened tender for a work “Construction of Protection Wall for Diversion of Nullah in H-8/3 Graveyard, Islamabad”, on 7<sup>th</sup> April, 2014 for an estimated cost of Rs 6.89 million. M/s Metro Tech offered bid @ 24.25% below MES Schedule of Rates 2009 and 21% below the market rates. The work was not awarded to the 1<sup>st</sup> lowest bidder.

Audit observed that the same work was tendered again on 9<sup>th</sup> March, 2015 and awarded to M/s Siddhu Construction Co. at 47% above the MES Schedule of Rates 2009 and 24% above NHA Schedule of Rates at a contract price of Rs 13.35 million. This resulted in a loss of Rs 6.46 million as detailed below:

	<b>Amount Rs in million</b>
Rates offered by M/s Metro Tech on 07.04.2014 (24.25% below)	6.89
Rates offered by M/s Siddhu Const. on 09.03.2015 (47% above)	13.35
<b>Loss</b>	<b>6.46</b>

Audit holds that award of work at higher rates was due to poor planning, weak financial control and defective contract management.

Audit pointed out the loss in July 2015. The Authority did not

respond to audit observation.

The matter was discussed in DAC meeting held on 3<sup>rd</sup> February, 2016. The Authority explained that original estimate of the protection wall was prepared for stone masonry on Schedule of Rates 2009 and the tenders were called on the same. Later on, it was felt that 25 feet high stone masonry was not technically viable proposal so it was decided to construct RCC retaining wall instead thereof and tenders were recalled on which higher rates were received due to change of design. The DAC directed to get the relevant record verified from Audit within a week.

The compliance of DAC's directive was not made till the finalization of this Audit Report.

Audit recommends that relevant record be got verified from Audit at the earliest.

(DP. 77)

#### **2.4.26 Award of contract for procurement of medical equipment without proper evaluation / analysis of rates - Rs 5.50 million**

As per PPRA Rule 29, procuring agencies shall formulate an appropriate evaluation criterion listing all the relevant information against which a bid is to be evaluated. Such evaluation criteria shall form an integral part of the bidding documents. Failure to provide for an unambiguous evaluation criteria in the bidding documents shall amount to mis-procurement.

Audit noted that Executive Director Capital Hospital CDA, Islamabad awarded a contract for procurement of medical equipment at a cost of Rs 9.00 million to M/s Ali Gohar & Company Pvt. Ltd. Islamabad on 21<sup>st</sup> June, 2014.

Audit observed that estimated cost for provision of Phacoemulsification System was approved and provided for Rs 3.50 million, whereas bid offered by M/s Ali Ghoar, being a single technically

qualified bidder, was accepted at a higher price of Rs 9.00 million without evaluation of the rates. This resulted into award of work at higher rates of Rs 5.50 million (Rs 9.00 million – Rs 3.50 million).

Audit pointed out the award of work at higher rates in April 2015. The Authority replied that market survey was carried out before accepting the single offered bid and rates were found reasonable.

The reply was not tenable as estimate was prepared and approved by the same authority for Rs 3.50 million after carrying out detailed market survey but the price of Rs 9.00 million was accepted without getting quotations from open market.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends investigation into the matter for fixing responsibility against the person(s) at fault.

(DP. 46)

#### **2.4.27 Non-availability of safe/potable drinking water due to award of contract to unsuitable contractor at unbalanced rates - Rs 2.70 million**

Rule 15 (1) of Public Procurement Rules, 2004 provides that a procuring agency, prior to the floating of tenders, invitation to proposals or offers in procurement proceedings, may engage in pre-qualification of bidders in case of services, civil works, turnkey projects and in case of procurement of expensive and technically complex equipment to ensure that only technically and financially capable firms having adequate managerial capability are invited to submit bids.

Audit noted that CDA completed installation of thirty eight (38) filtration plants in the year 2005 at different locations in Islamabad. Since then the work “Operation and maintenance of public drinking water filtration plants” was being done through private contractors. The last

contract was completed in September 2012 and fresh tenders were invited in August 2013. The work was awarded to M/s Rising Sun at 65% below the NIT cost of Rs 21.34 million in August 2013 for one year.

Audit observed the following:-

- i. No prequalification process was exercised for the firms participating in tenders.
- ii. Previous experience of the firms for award of work was not taken in to account.
- iii. The government departments, like WASA Rawalpindi already engaged in this kind of work, were not consulted to get the practical knowledge for operations and maintenance of filtration plants.
- iv. The firm was not evaluated with reference to technical expertise for water management of urban areas.
- v. The firm was not evaluated with reference to laboratory and other water testing equipment.

CDA awarded a public utility contract without technical evaluation at unworkable/unbalanced rates. The contractor could not comply with the duties/responsibilities as per special terms and conditions of the contract but CDA did not terminate the contract despite poor performance. For instance, general cleanliness of the filtration plants, presence of specific numbers of employees on the filtration plants and regular provision of water test report from Pakistan Council of Research in Water Resources (PCRWR) or National Institute of Health (NIH) on monthly basis and also on as and when required basis. In a period of one and half years upto February 2015 the contractor was paid for Rs 2.70 million against contract amount of Rs 10.00 million. This also reflected on poor execution of work on the part of the contractor.

Audit holds that award of work against unbalanced rates to an unsuitable contractor deprived the inhabitants of Islamabad from clean and hygienic water.

Audit took up the matter with the management in August 2015. The Authority replied that every action from tendering to payment to the contractor was taken in accordance with rules and regulations. The payment of the contractor was stopped due to poor performance and released in compliance of the orders of Honourable Islamabad High Court.

The reply was not tenable because the work was awarded to an inexperienced and technically unsound firm at unbalanced rates. The contractor did not deliver as it failed to provide facility of safe drinking water to citizens of Islamabad and hence deprived the masses from getting this essential facility. Moreover, as far as testing of water is concerned no comprehensive test reports from a reputed laboratory were on record. The management could not initiate action against the contractor/firm due to poor monitoring and lack of decision.

The matter was discussed in the DAC meeting held on 3<sup>rd</sup> February, 2016. CDA explained that contract of the previous contractor M/s Rising Star has been closed and the work of management of water filtration plants has now been awarded to another contractor M/s Riaz & Co. who is managing the work properly. The Committee was not satisfied with the statement as the health of the citizens was being compromised due to provision of unhygienic water and directed to closely monitor the performance of water filtration plants by conducting water quality tests from ISO certified laboratories on regular basis and get it verified from Audit.

The compliance of DAC's directive was not made till finalization of this Audit Report.

Audit recommends early compliance of DAC's directive.

(DP. 273)



#### **2.4.28 Leasing out Monal Restaurant Pir Sohawa Islamabad without open auction and non-recovery of property tax from the lessee - Rs 1.96 million**

Para-6 of Chapter-II of Islamabad Land Disposal Regulations 2005 provides that all commercial and business plots shall be sold or leased out through open auction as commercial plots, or activities mentioned in para 3(2) including hotels and restaurants etc. Provided that plots meant for any activity, as determined by CDA Board may be disposed of through auction amongst pre-qualified parties. Criteria for pre-qualification and plot specific condition of allotment shall be publicized.

Para-4(7) of SRO 24(2001) dated 12<sup>th</sup> January, 2001 stipulates that buildings and land vesting in the CDA shall be 100% exempted from the property tax excluding the land leased out to the private individuals and corporations, companies and firms or to any group of individuals.

Audit noted that original PC-I regarding Construction of Restaurant (Monal Restaurant) near Gokina Mor, Pir Sohawa, Islamabad was initiated in 2004 at a cost of Rs 47.12 million which was subsequently revised as Rs 105.33 million in 2006 (PC-I No.843/69/2006) with the approval of CDA DDWP.

Construction work of the Restaurant was awarded to M/s Arif Enterprises vide acceptance letter No.CDA/DD(WD-I)/(E-I)/2004/1521 dated 3<sup>rd</sup> September, 2004 for Rs 22.60 million. The work was started on 4<sup>th</sup> September, 2004 and completed on 31<sup>st</sup> January, 2007 with total construction cost of Rs 69.67 million (civil work was for Rs 58.08 million + Electrical & Mechanical work for Rs 11.59 million).

Audit observed that CDA leased out Monal Restaurant Pir Sohawa Islamabad (with total area of 47,000 s.ft approximately including 21,234 s.ft covered area) to Mr. Luqman Ali Afzal S/o Prof. Dr. Muhammad Afzal Sheikh resident of House No.105, Tipu Block, New Garden Town, Lahore (Representing Ze Grill National Bank Park, Gulberg Lahore) at certain terms and conditions vide Lease Agreement dated 10<sup>th</sup> March,

2006 for a period of fifteen (15) years at annual rent of Rs 3.12 million without open auction as required under the above referred Land Disposal Regulation. The per square foot annual rent worked out to Rs 66.38 which was considered to be very nominal as compared to similar commercial properties/businesses leased out in other developed sectors of Islamabad. Moreover, property tax was not being billed/recovered from the Lessee in accordance with the above referred property tax notification. This constituted a serious irregularity and resulted into non-recovery of Rs 1.96 million of property tax up to June 2014.

Audit holds that leasing out of commercial property/business point without open auction/publication and non-recovery of property tax occurred due to non-adherence to the Land Disposal Regulations as well as prevailing property tax rules and lack of financial and internal controls.

Audit pointed out the non-recovery in March/April 2015. The matter was also reported to the Chairman CDA and Administrative Secretary in September 2015 but no reply through respective Ministry was received.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that leasing out Monal Restaurant property without open auction and relatively at very lesser rent be investigated and appropriate action be taken to avoid further loss to the Authority along with recovery of the sustained loss from the person(s) at fault and recovery of property tax.

(DP.8)

#### **2.4.29 Unauthentic appointments in violation of CDA Service Regulations 1992 & Non-verification of Degrees & Educational Certificates of CDA employees from Universities / Boards**

As per provisions of CDA Employees Service Regulations, 1992 and conditions of offer letters, regularization of service was subject to

checking of original documents viz. first engagement letter, last extension letter of service, CNIC, academic certificates/degrees, experience certificates, domicile etc. at the time of joining. The subject appointments were also subject to the directions/orders/judgments of court of competent jurisdiction. As per conditions of the offer letter, later on these documents shall be checked/verified from the Boards/Universities/Departments concerned by CDA within three months. In case these records/documents are found counterfeit, criminal as well as disciplinary proceedings shall be initiated against the individuals under CDA (Employees) Service Regulations, 1992.

Audit noted that Human Resource Directorate, CDA made appointments in BPS-16 to 18 during the years 2011 to 2013 without attestation/confirmation of degrees from the Universities/Boards concerned.

Audit observed that degrees/qualification certificates were not got attested by the Directorates concerned. Non-attestation of degrees/qualification certificates was in violation of the appointment conditions and CDA Service Regulations, 1992.

Audit pointed out the unauthentic appointments in March 2015. The Authority replied the verification of degrees and certificates was in process in the office of the Secretary CDA Board. Latest progress of certification of degrees/certificates was not intimated till the finalization of this Audit Report.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that matter may be investigated and attestation of degrees/ qualification certificates from Boards and Universities concerned be ensured.

(DP. 36)

#### **2.4.30 Irregular/Unauthentic regularization of 1,569 daily wagers and 32 officers without fulfillment of prescribed criteria of experience and qualification**

As per Notification No. CDA-01 (HRD-III) 2011/5314 dated 12<sup>th</sup> December, 2011 regarding regularization of daily wages and contract services of Daily Wage staff, the CDA Board in its meeting held on 30<sup>th</sup> September, 2011 approved regularization of contract employees who had completed two years continuous service subject to availability of post and fulfillment of requisite qualification.

Audit noted that Human Resource Directorate, CDA regularized services of 1569 number of Muster Roll/Daily Wages employees of Environment Directorates CDA and 32 officers of BPS-16 and above, during the financial year 2011-12.

Audit observed that services of the employees from BPS-1 to 14 were regularized without ensuring availability of posts and fulfillment of requisite qualifications. Further, thirty-two Officers hired on daily wages were also regularized without fulfillment of required criteria of experience and education. Departmental Recruitment Committees (DRC) did not follow the bye-laws approved by the CDA Board in its meeting held on 30<sup>th</sup> September, 2011. Details of sanctioned posts and posts in position were not shown recorded in the recruitment proceedings. It was also observed that Directorate-wise sanctioned strength was not maintained in Human Resource Directorate CDA. Working strength submitted by different Directorates was not got compared due to non-maintenance/non-availability of Directorate wise sanctioned strength in Human Resources Directorate CDA, which rendered the process of appointment as un-authentic.

Audit pointed out the irregularity in March 2015. The Authority replied that directorate-wise sanctioned strength was being reconciled and will be revised after conducting meeting with directorates concerned. After completion of reconciliation process revised sanctioned strength of

each directorate will be notified. However, revised sanctioned strength was not produced to Audit till the finalization of this Audit Report.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that matter be investigated for fixing responsibility against the person(s) at fault.

(DP. 38)

## **Performance**

### **2.4.31 Non-removal of encroachment/unauthorized construction from the CDA land valuing billions of rupees**

Para 66 (Chapter VIII Encroachment) of Municipal Byelaws CDA provides that no person shall encroach on the land under the charge of the Authority or put up an immovable structure, hut or khokha or overhanging structure under any circumstances. Free flow of pedestrian traffic in circulation verandahs of all the Markets of Islamabad shall not be obstructed by stacking articles or in any other manner. Articles so stacked shall be liable to be removed and confiscated at the cost and risk of the defaulter.

**2.4.31.1** Audit noted that Director Enforcement CDA did not get vacated hundreds of acres of CDA land in adverse possession/use of illegal occupants/encroachers in eleven Kachi Abadies in Islamabad.

Audit observed that concerted efforts were not made to remove the encroachments/unauthorized constructions/illegal occupation from the Kachi Abadies. Non-performance of the functions by the Directorate concerned in accordance with above referred CDA Byelaws/SOP, not only deprived the Authority from the huge financial gains by utilizing its land but also maintained inconvenience to residents of the areas.

Audit holds that non-retrieval of CDA land occurred due to non-adherence to the CDA Byelaws/SOP and mismanagement and ineffective vigilance by the security and enforcement directorates.

Audit pointed out the violation in March, 2015. The Authority did not reply.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that matter be investigated for fixing responsibility on the person concerned for illegal use of CDA land besides vacation of the illegal occupation of land in the Kachi abadies at the earliest.

(DP. 28)

**2.4.31.2** Audit observed that CDA land having market value of Rs 10.00 million was encroached and two (02) shops measuring 40 sq. ft. each were constructed in green area near Plot No. 13-J, F-7 Markaz Jinnah Super, Islamabad. The shops were subsequently put on rent @ Rs 200,000 (each) per month.

Audit holds that non-retrieval of CDA land occurred due to non-adherence to the CDA Byelaws/SOP and mismanagement and ineffective vigilance by the security and enforcement directorates.

Audit pointed out illegal/un-authorized encroachment in September, 2015. The Authority replied that Directorate of Municipal Administration, CDA granted permission for construction of shops on CDA land, therefore, the para will be referred to Directorate of Municipal Administration, CDA for compliance of observation as raised by Audit and reply of the same will be communicated to Audit accordingly.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit emphasizes an early retrieval of encroached land and action for illegal construction.

(DP. 93)

#### **2.4.32 Encroachment on 40 kanals of CDA land - Rs 10,000.00 million**

Section 15-A of CDA Ordinance 1960 read with Section 122 of the Municipal Administration Ordinance 1960, Chapter-VIII, Clause-66, provides that no person shall encroach on the CDA land under the charge of the Authority or put up an immovable structure, or overhanging structure under any circumstances and rent as per prevailing market rates per square foot per month shall be payable in advance.

Audit noted that Planning Wing, CDA allowed the Management of Centaurus Shopping Mall Project in F-8/G-8 Blue Area, Islamabad to construct a Car Parking on CDA plot measuring five (05) acres of land adjacent to Centaurus without charging fee as per market rates.

Audit observed that when management of Centaurus Shopping Mall applied for allocation /allotment of the plot permanently in July 2013, the Additional Director Urban Planning III, CDA declared the Car Parking already developed in the said plot by the Centaurs management as un-authorized encroachment on CDA land and requested to Director Enforcement CDA vide letter No.CDA/PLW-OP-F-8/G-8/08/2351 dated 8<sup>th</sup> October, 2013 to take action for removal of the encroachment, which was not done. This resulted into encroachment on CDA land worth Rs 10,000.00 million.

Audit holds that due to encroachment, the Authority lost possession of its assets valuing Rs 10,000.00 million.

Audit observed that encroachment to CDA land happened due to non-fencing, weak vigilance and inadequate monitoring mechanism.

Audit pointed out the violation in March, 2014. The Director Urban Planning CDA admitted the encroachment on CDA land and stated

that Director Enforcement CDA was asked to remove the encroachment from CDA land and initiating action against management of Centaurs on 8<sup>th</sup> October, 2013.

The reply was not tenable as encroachment was not removed and no action was taken against the management of Centaurs.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that encroachment may be got removed from the CDA land at the earliest.

(DP. 175)

#### **2.4.33 Unauthorized/illegal occupation of Centaurus Shopping Mall F-8/G-8 Islamabad without obtaining completion certificate**

As per Para 2.8.1 of Islamabad Residential Sectors Zoning Regulations 2005, CDA, no building or structure or part thereof shall be occupied or used without obtaining completion certificate (Permission to occupy) from the Authority within three (03) months after the expiry of initial construction period. The Deputy Director BCS shall be solely responsible to give final approval of the building plan, issue completion certificate, notices and challans and shall also issue demolition order where necessary.

Audit noted that the management of Centaurus established Shopping Mall F-8/G-8 and occupied the building during the year 2012 without obtaining completion certificate (Permission to occupy) from the Authority within three (03) months after the expiry of initial construction period.

Audit observed that building of Shopping Mall F-8/G-8 was occupied without obtaining completion certificate from Building Control Directorate CDA. Occupation of incomplete high-rise building involved risk of human life like in Margalla Towers F-10 Islamabad which



collapsed in the earthquake of 2005 and where completion certificate was not obtained before occupation.

Audit holds that irregularity occurred due to non-adherence to the rules/regulations, violation of law, and material weaknesses in internal controls.

Audit pointed out the violation of rules in March 2014. The Authority replied that Pak-Gulf have occupied five floors by establishing shopping mall. The owner of the project has been issued notice regarding occupation of building without taking completion certificate and permission from CDA. Further the case has been referred to Deputy Commissioner CDA for action. No tangible outcome of the case was reported till finalization of this Audit Report.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that matter may be investigated for occupation of building without obtaining completion certificate and action against the responsible person(s) be taken.

(DP. 176)

#### **2.4.34 Loss due to charging lesser rate on sale of additional land for Centaurus Shopping Mall - Rs 84.70 million**

As per offer letter of allotment of additional land measuring 3000 square yards for Shopping Mall F-8/G-8 issued by the Director Project Management Office CDA vide No.CDA/D(PMO)/02/2005/2048 dated 31<sup>st</sup> January, 2007, M/s Pak. Gulf Construction (Pvt) Ltd. had to pay Rs 684.70 million (@ Rs 228,234 per square yard) before allotment of the additional land.

Audit observed that Director Project Management Office, CDA entered into a second amended agreement with M/s Pak. Gulf Construction (Pvt.) Ltd. on 5<sup>th</sup> December, 2007 for allotment of the

additional land measuring 3000 square yard @ Rs 200,000 per square yard instead of updated bid price on price index @ Rs 228,234 per square yard. Allotment of the land at lesser rate resulted in a loss of Rs 84.70 million.

Audit holds that the loss occurred due to weak financial controls.

Audit pointed out the loss in March 2014. The Authority did not respond to audit observation.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends investigation for fixing responsibility against the person(s) at fault.

(DP. 178)

#### **2.4.35 Leasing of 10 kanals land in Fatima Jinnah Park F-9 Islamabad for unauthorized construction of Grid Station**

According to Section 12 (3) of the CDA Ordinance, 1960, the public park, playing fields and graveyards are to be developed and maintained by the CDA. During the classification of the plots under Article 3 of the Regulation, if a piece of land has been earmarked for the purpose of public park, the same cannot be leased out and CDA itself is bound to develop the same (Reference Judgment of Supreme Court of Pakistan in Human Right Cases No.4668 of 2006, No.1111 of 2007 and No.15283 of 2010).

Audit noted that Planning Wing CDA approved site measuring 10 kanals in F-9 Park for construction of Grid Station to meet the requirements of Centaurus Shopping Mall F-8/G-8 Islamabad. The land was allotted on 33 years lease extendable for two subsequent terms of 33 years each in violation of the said decision of the Honourable Supreme Court of Pakistan. This resulted into unauthorized /illegal transfer of land of Public Park for a commercial activity.

Audit holds that the violation occurred due to failure of executive to safeguard the public interest and misuse of authority.

Audit pointed out the irregularity in March 2014. The Authority replied that 10 kanal of land in the F-9 Park had been provided for Grid Station site. Planning and development of Grid Station does not tantamount to any commercial use and is meant for infrastructure public facility.

The reply was not tenable because as per article 12(3) of the CDA Ordinance 1960 the land of Public Park could not be leased out.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that case may be investigated at an appropriate level for fixing responsibility and taking action against the person(s) responsible.

(DP. 182)

#### **2.4.36 Non-retrieval of CDA land from Housing Societies in Sector E-11 - Rs 8,619.20 million**

According to Section 49 (C) (1) & (2) of CDA Ordinance 1960, if any building, structure, work or land is erected, constructed or used in contravention of the provisions of rules and regulations, the Deputy Commissioner may require the owner, occupier or user to remove, demolish or alter the building, structure or work or desist from using the land. If an order under sub-section(1) is not complied with within the specified time, the Deputy Commissioner, or any person empowered in this behalf by the Authority, may remove, demolish or alter the building structure or work, or stop the use of the land by using necessary force and may also recover the cost from the person responsible.

Audit noted that Northern Strip in Sector E-11, Islamabad spread over an area of 53.87 acres located in the North of Multi Professional

Cooperative Housing Societies was to be developed by CDA. The layout plan and land use analysis were approved by CDA Board for Luxury Apartments, Specialized Businesses, Office Buildings and Commercial Plots which were to be included in the forthcoming auction. On a site visit by the CDA officials in Sector E-11, Islamabad on 10<sup>th</sup> March, 2014, it was noticed that new constructions had taken place without approval of the Authority near Khyaban-e-Iqbal in the shape of six (06) Marquees/Wedding Halls.

The Marquees /Wedding Halls are using the Blue Area Northern Strip of 156 feet width and Khyaban-e-Iqbal for their access/approach and car parking. Further, an illegal and unauthorized construction of a project of Multi-Storeyed apartments in the name and style of “Fortune Empire” was being carried out without approval of CDA. The irregularities were in the notice of CDA but the Authority could not get possession of encroached land from the unauthorized occupants. The negligence on the part of the Authority to implement CDA bye-laws was encouraging other encroachers to construct illegal societies, projects, buildings on the encroached land which were increasing day by day. Value of the encroached land in question worked out to Rs 8,619.20 million (=430.96 kanals @ Rs 20.00 million per kanal).

Audit observed that the irregularity occurred due to weak/inadequate oversight mechanism for exercise of relevant internal controls.

Audit pointed out the irregularity in December 2014. The Authority did not respond to audit observation.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that measures be taken to retrieve encroached land and demolish illegal construction made without approval of CDA.

(DP. 156)

#### **2.4.37 Abnormal delay in possession of land measuring 5,977 kanals in acquired sectors H-16 - Rs 4,960.81 million**

Under section 55 of Land Acquisition Act, 1894 (Act-I of the 1894) and Rule 10 of Punjab Acquisition Rules 1983, the Authority while issuing a Notification under Section 5 or 17 of the Act shall ensure that the collector of the District has carefully and prudently calculated the estimated prices of the land sought to be acquired, placed funds equivalent to the estimated cost assessed by him under sub rule (III) at the disposal of Land Acquisition Collector and has deposited the same in Treasury under the head Revenue Deposit as Security for payment of compensation. Rule 13 further provides that Collector or the Commissioner, as the case may be, shall not deliver possession of Land sought to be acquired by any Department or Agency concerned unless sufficient Funds for the payment of compensation are placed at the disposal of Collector in Advance.

Audit noted that Director Land & Rehabilitation CDA announced land award of Sector H-16, H-17 along with other Sectors' sites on 15<sup>th</sup> January, 2009.

Audit observed that CDA did not take over the possession of the land from the occupants/affectees of these sectors despite allocation of sufficient funds to the Director Land & Rehabilitation CDA. The funds remained undisbursed/un-utilized due to non-vacation of the land by the occupants. Standard Operating Procedure (SOP) for making payment to the affectees was not prepared. Payment to the affectees was made/allowed on pick & choose basis. Progress reports of acquired land and payments made there-against was not prepared to assess and compare the actual progress of acquired land under the award announced in January, 2009. This resulted into mismanagement due to ill-planning in acquisition of land for which funds were provided in advance.

This violation of rules occurred owing to a weak oversight mechanism for exercising the internal controls and mismanagement.

Audit pointed out the non-possession of land in April 2015. The Authority did not reply.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that responsibility may be fixed against the persons(s) responsible for abnormal delay in taking over possession of the land.

(DP. 206)

#### **2.4.38 Non-utilization of allocated funds for development of residential sectors - Rs 1,983.55 million**

Para 2.1 of Guidelines for Project Management provides that policy of the Government of Pakistan is to utilize natural and economic resources of the country efficiently for socio-economic welfare of the people. Para 3.6 of Guidelines for Project Management provides that the rationale behind the project appraisal is to provide the decision-makers financial and economic yardsticks for the selection/rejection of projects amongst competing alternative proposals for investment. If the project is found technically sound, financially and economically viable and socially desirable, only then the project is approved.

Audit noted that development funds of Rs 2,224.00 million were provided in the CDA Budget 2014-15 under the subject, "Priority Projects under Self-Financing Account". Audit observed that out of Development Funds of Rs 2,224.00 million, the Authority was able to utilize Rs 240.45 million only (10.81%) as detailed below:

<b>S. No.</b>	<b>Project</b>	<b>Allocation (Rs in million)</b>	<b>Expenditure (Rs in million)</b>
1	Sector Development in C-14, C-15 & C-16	500.00	-
2	Sector Development in I-15	500.00	-
3	Sector Development in I-12	200.00	182.00

<b>S. No.</b>	<b>Project</b>	<b>Allocation (Rs in million)</b>	<b>Expenditure (Rs in million)</b>
4	Sector Development in D-12	1,024.00	58.45
	<b>Total</b>	<b>2,224.00</b>	<b>240.45</b>

Audit holds that allocated development funds could not be utilized due to mis-management and lack of interest of CDA in development of residential sectors.

Audit pointed out non-utilization of allocated funds in October 2015. The Authority replied that Sectors C-14, C-15 & C-16 were new projects for which codal formalities such as planning, design and cost estimate for preparation of PC-I were underway. The PC-I of Sector C-14 and C-15 was approved by CDA-DWP whereas PC-I for Sector C-16 was under approval. The detailed design / detailed estimates were under preparation. The development works of these new sectors will be taken in hand after completing the requisite codal formalities and allocation of funds in current year. Funds amounting to Rs 500.00 million each were earmarked for Sector D-12 and E-12.

The reply was not tenable as the allocated funds were not utilized by the Authority due to delay in completion of pre-requisites for development of newly created sectors.

The matter was discussed in DAC meeting held on 3<sup>rd</sup> February, 2016. CDA explained that codal formalities such as planning, design and cost estimates for preparation of PC-I were pre-requisites which took time. Now the development works of Sectors C-15 and I-12 have been awarded to the contractors. The development works of other Sectors will be taken in hand after completing the codal formalities. The Committee directed CDA to complete the procedural formalities and development works of the residential Sectors so that the possession of the plots could be given to the allottees at the earliest.

Audit recommends an early and prompt action for development of residential sectors.

(DP. 270)

**2.4.39 Blockade of financial resources due to Construction/ Installation of Sewage Treatment Plant beyond legitimate requirements - Rs 1,042.13 million**

According to the provision of Revised PC-I of Improvement/Refurbishing of Existing Sewerage Treatment Plants (STP) Phase-I, II & III and Construction of Sewerage Plant (Phase-IV) and Procurement of contingent items at Islamabad, approved by ECNEC on 14<sup>th</sup> March, 2006 for Rs 2,727.006 million, the Sewerage Treatment Plants have a capacity to treat 18.00 Million Gallon Discharge (MGD) per day. Reportedly, STP Phase-IV is capable of treating 10 MGD sewage per day.

Audit observed that average per day MGD of STP Phase-I, II and IV remained at a level of 3.40 MGD during the financial year 2013-14. STP Phase-III was not functional due to insufficient inflow. It meant that STP Phase-IV was constructed/installed superfluously and working out the inflow capacity of sewage was exaggerated in the revised PC-I. Construction of STP-IV without need caused blockade of financial resources amounting to Rs 1,042.13 million, as worked out below besides recurring annual operational cost:

(Rs in million)

S. No	Description	Foreign currency component	Local component	Total
1.	Consultancy cost	18.77	2.66	21.43
2.	Construction cost	550.00	152.00	702.00
3.	Contingencies	-	15.22	15.22
4.	Department charges	-	33.62	33.62
5.	Bank charges		7.10	7.10
6.	Custom duty	-	191.40	191.41
7.	Price escalation	-	12.35	12.35
	<b>Total</b>	<b>568.77</b>	<b>414.37</b>	<b>983.14</b>
			Income Tax	58.99
			<b>Grand Total</b>	<b>1,042.13</b>



Audit holds that blockade of financial resources was due to mismanagement and ineffective implementation of administrative, financial and internal controls.

The matter was taken up with the management in April 2015. The Authority replied that all four phases were meant to treat the sewerage of different sectors of Islamabad. However, the main trunk of different sectors to the site of plant was damaged during construction of Metro Bus Project. The fault was being rectified on war footing basis to increase the receipt of the quantity of sewerage.

The reply was not tenable because the discharge on STP phase I,II and III was very low as against estimated. Construction of STP phase IV was, therefore, unwarranted.

The matter was discussed in the DAC meeting held on 3<sup>rd</sup> February, 2016. CDA management explained that Sewerage Treatment Plant is not functioning at full capacity due to broken networks of the main trunks from different sectors to the site of the plant. The Committee was not satisfied with the explanation given and directed to connect the missing links of the networks and ensure the full functioning of the STP as per its approved capacity.

The compliance of DAC's directive was not made till finalization of this Audit Report.

Audit recommends that DAC's directive be complied with at the earliest.

(DP. 21)

#### **2.4.40 Inefficient utilization of self-financing funds hampering achievement of envisaged objectives - Rs 252.64 million**

As per Para-3.3 Chapter-3 and Chapter-10 (ii) of Guidelines for Project Management issued by Planning Commission, it is mandatory for the projects of Infrastructure Sector and Production Sector costing

Rs 300.00 million and above to undertake proper feasibility studies and not to prepare PC-1 without detailed designing of civil works.

Audit noted that PC-I of the project Construction of Margalla Avenue from GT Road to Sector D-12, Islamabad was approved at a cost of Rs 744.85 million in January 2012. As per tentative implementation schedule, the work was to be started in March 2012 and to be completed in March 2014.

Audit observed that Director, Road Directorate (North), CDA awarded work of a stretch of 9 km road out of 14 km to M/s Rakhshani Builders at a contract price of Rs 588.43 million with date of start as 11<sup>th</sup> June, 2012 and date of completion as 10<sup>th</sup> April, 2013. Despite incurring an expenditure of Rs 252.64 million from self-financing and lapse of a period of over 2 years, the objectives envisaged in PC-I were not achieved. This resulted in non-achievement of objectives provided in the PC-I and infructuous expenditure of Rs 252.64 million.

Audit holds that inefficient utilization of funds was due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the irregularity in July/August 2015. The Authority replied that out of 9 Km stretch of road, work up to base course had already been completed in 6 Km. The progress of work remained slow due to encroachments at different locations.

The reply was not tenable as proper feasibility and detailed design was not carried out prior to approval of PC-I and award of the work.

The matter was discussed in DAC meeting held on 3<sup>rd</sup> February, 2016. The Authority explained that the case is under consideration of Arbitrator. The arbitration proceedings are under process expected to be completed in first week of April 2016. The Committee observed that the project was badly conceived and pended the Para till announcement of award by the Arbitrator.

Progress on arbitration case was not conveyed till the finalization of this Audit Report.

Audit recommends appropriate action against those responsible for the lapse.

(DP. 74)

#### **2.4.41 Environmental deterioration due to unhygienic disposal of garbage waste**

Environmental Protection Agency (EPA) in October 2004 recommended that CDA should plan a future waste management plan, to reduce the waste management cost, to be first model city of waste management in Pakistan. Clause 21 of contract agreements of collection of garbage provides that the contractors have the right/claim on collected waste, for any kind of treatment like recycling/composition activities.

Audit noted that Director Sanitation CDA Islamabad incurred an expenditure of Rs 262.96 million during the financial year 2014-15 on account of provision of cleaning & collection of garbage from various sectors to specified dumping sites in Sector H-12 which was later on changed due to a lot of complaints regarding spreading pollution in surrounding areas.

Audit observed that CDA, instead of addressing the issue of disposing the garbage waste through scientific methods, just changed the garbage dumping site from H-12 to I-16. This huge collection of garbage was to be recycled to protect environment from pollution, fatal diseases and other health hazards.

Audit pointed out unhygienic disposal of garbage waste in July 2015. The Authority replied that the dumping sites had been changed several times and planning for integrated waste management system was underway.

The reply was not tenable as changing of dumping site was not the solution to the problem. The huge collection of garbage was to be recycled/ managed on modern scientific lines to protect environment from pollution, fatal diseases and other health hazards.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit emphasizes implementation of Environmental Protection Agency guidelines to protect the environment from pollution.

(DP. 218)

### **Internal Control Weaknesses**

#### **2.4.42 Non-finalization of Fact Finding Inquiry regarding Layout Plans/ NOCs of Housing Societies involving loss - Rs 19,007.16 million**

As per Appendix 2(2) of Rule 23 of GFR (Vol-I), the administrative authority is personally responsible for the expeditious conduct of the inquiry to avoid delay in the investigation of any loss due to fraud, negligence, financial irregularity. In case the investigation is complex and the authority needs the assistance of an expert/professional to unravel it, he should apply forthwith to that Government. Thereafter, the administrative authority and the expert/professional will be personally responsible within their respective spheres, for expeditious conduct of inquiry.

Audit noted that on the recommendation of Judicial Commission's report which was constituted by Islamabad High Court for the affairs of CDA, Ms. Shaista Sohail Member (Estate), CDA was appointed as head of an inquiry committee to probe into the matter and come up within 15 days relating to certain irregularities on the part of the officers/officials of various formations of CDA regarding issuance of NOCs to societies, surrendering/selling land to societies in Sector E-11 vide letter dated 3<sup>rd</sup> June, 2013.

Audit observed that a period of more than 18 months elapsed but fact finding inquiry report could not be finalized by the inquiry committee and nor could it be submitted to the Judicial Commission. The very purpose of inquiry was to identify and rectify the flaws in ICT (Zoning) Regulations, failure to achieve planned objectives, and other functions or role of the Organization that might have been affected, which has been defeated with passage of time while grievances of innocent residents of societies remain unaddressed. The Authority failed in safeguarding its financial interest, implementing CDA bye-laws and regulating the private housing societies according to ICT Zoning Rules resulting into a revenue loss of Rs 19,007.16 million due to inefficiency, corrupt practices, flaws in operating mechanism of societies.

Audit holds that irregularity occurred due to weak internal controls.

Audit pointed out the irregularity in December 2014. The Authority did not respond to audit observation.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends an early investigation of the matter for fixing responsibility against the person(s) responsible.

(DP. 154)

#### **2.4.43 Inadmissible/Unjustified expenditure on provision of electricity to Centaurus Shopping Mall resulting into undue favour to the purchaser - Rs 1,312.50 million**

Clause 6(a) of contract/sale agreement dated 9<sup>th</sup> August, 2005 between CDA and Pak. Gulf Construction (Pvt.) Ltd. (valuing Rs 6,090.96 million), provides that CDA shall, at its own cost, be responsible for providing all basic services such as electricity, gas, water, sewerage, drainage at the site of the plot, no later than approval or deemed approval

of the plans or revised plans as the case may be. All such utilities and services shall be provided by the CDA at the plot. Any delay by the CDA in providing these services will entitle the purchaser to a “day for day” increase of the completion date.

Audit noted that CDA provided land measuring 10 kanals, valuing Rs 800.00 million, provided in the vicinity of F-9 Park free of cost for construction of Grid Station meant for Centaurus Project, apart from an expenditure of Rs 512.50 million incurred on construction of Grid Station.

Audit observed that Director, Project Management Office, CDA included ambiguous clauses in the sale agreement which were misconstrued as if provision of electricity and all basic facilities to Centaurus Shopping Mall was the responsibility of CDA. This resulted into undue favour of Rs 1,312.50 million to the purchaser M/s Pak. Gulf Corporation Pvt. Ltd.

Audit holds that the loss of Rs 1,312.50 million was due to ill planning, mismanagement and weak financial controls.

Audit pointed out the irregularity in March, 2014. The Authority did not respond to audit observation.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends a proper investigation and action against the officers responsible for flawed decision making and undue favour to the developer at the cost of Authority.

(DP. 198)

#### **2.4.44 Non-recovery due to unauthorized relaxation of payment schedule of due installments through post-bid amendment - Rs 1,520.00 million**

Rule 19(iv) of General Financial Rules (Vol-I) provides that the terms of contract once entered into shall not be materially varied without the previous consent of the Authority competent to enter into the contract so varied. No payment to contractor by way of compensation or otherwise outside the strict terms of the contract or in excess of the contract rates may be authorized without the previous approval of the Ministry of Finance.

Audit noted that Director Project Management Office CDA, allotted land measuring 13.5 acres (65,098 sq. yards) for construction of Five Star Hotel “Grand Hyatt” near Convention Centre Islamabad, in June, 2005. The cost of plot was Rs 4,882.50 million and a down payment of Rs 732.35 million @ 15% of the total value was made by the purchaser. The balance 85% of the value was payable in 15 yearly installments of Rs 276.67 million each in accordance with payment schedule with mark-up based on six months KIBOR.

Audit observed that Director Estate Management-II, CDA made post-bid amendments/changes in the contract agreement to allow the purchaser M/s BNP (Pvt.) Ltd to reduce/re-schedule the original payment plan. Minutes of meeting with regard to rescheduling of payment, for Grand Hyatt Hotel signed by Member Finance CDA revealed that exemption was given / allowed to M/s BNP (Pvt.) Ltd to deposit due installments from October 2006 to October 2011 @ Rs 276.67 million per annum. Further, the requirement of interest @ KIBOR was also relaxed on initial three installments i.e. 2012 to 2014. Re-scheduling was made without prior approval of Finance Division, Govt. of Pakistan, which was undue favour to purchaser and unauthorized. This resulted into non-recovery of due installments of Rs 1,520.00 million.

Audit pointed out the non-recovery in March-April 2014. The Authority did not reply.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends early recovery of outstanding dues besides fixing responsibility against the person(s) responsible.

(DP. 184)

#### **2.4.45 Payment of Electricity charges for street lights without confirming actual consumption - Rs 1,116.30 million**

Rule-1(i) of CDA Procedure Manual Part-II (Financial Procedure) provides that every Officer authorized to incur expenditure from Public funds is expected to exercise same vigilance in respect of expenditure from public funds as person of ordinary prudence shall exercise in respect of his own money.

Para 5 (b) of System of Financial Control and Budgeting, 2006, states that the Principal Accounting Officer shall ensure that the funds allotted to a Ministry/ Division, etc. are spent for the purpose for which these are allotted. He shall also ensure that the expenditure falls within the ambit of a Grant or an Appropriation duly authenticated.

**2.4.45.1** The Deputy Director, Street Light Division-I, CDA, Islamabad made payment to IESCO on account of electricity charges of street lights installed in Islamabad @ 3.7 million units per month as per IESCO letter dated 6<sup>th</sup> January, 2012 instead of measuring actual consumption of electricity. Further, the lump sum units charged per month were not supported by any computations as to number of street lights, working hours, percentage of lights out of order, etc to justify the lump sum monthly units being charged. A sum of Rs 1,116.30 million was paid to IESCO on account of electricity charges during 2014-15.

Audit holds that payment of electricity charges without measuring actual consumption was unjustified.



**2.4.45.2** Audit further observed that Deputy Director E & M Street Light Division CDA, Islamabad incurred expenditure of Rs 440.00 million on account of arrears of electricity bills. During scrutiny of paid bills Audit observed that no reference to month, site etc. was mentioned for which the arrears were paid. Moreover, the regular payments were being made on monthly on the basis of estimation and not as per actual. In the presence of regular monthly payments the question of payment of arrears did not arise. This resulted into an unjustified expenditure of Rs 440.00 million.

Audit holds that the un-justified expenditure was incurred due to inadequate mechanism for enforcing relevant rules and weak administrative/internal controls.

Audit took up the matter with the management in October 2015. The Authority replied that 3.7 million units were paid to IESCO against the total street lights installed in Islamabad. Furthermore, the figure was reconciled on the basis of actual connected load, total number of street lights and their working hours for which a number of meetings were held between both departments and final decision taken vide minutes of meeting dated 6<sup>th</sup> January, 2012. Due to financial constraints CDA was not able to pay the electricity bills regularly causing accumulation of arrears of huge amount. Moreover, the matter for installation of energy meters was taken up with IESCO and in 1<sup>st</sup> phase IESCO has started installation of energy meters at Constitution Avenue Islamabad.

The reply was not tenable because the load was taken by the IESCO on the basis of actual load released from Operational Division No.I & II without deducting the load losses and the electricity utilized by other consumers. The details of arrears were not produced in support of reply. The expenditure on arrears was charged to current year budget without authorization from CDA Board.

The matter was discussed in the DAC meeting held on 3<sup>rd</sup> February, 2016 wherein CDA management explained that electricity charges of street lights have been paid on the basis of actual connected load and total number of street lights and their working hours. Due to

financial crunch CDA was not able to pay the electricity bill regularly which causes accumulation of arrears. The Committee directed CDA to get verified the total number of electric street light poles along with detail working, utilization of electricity, showing area and period of consumption, and reconciliation made with the IESCO to Audit.

The compliance of DAC's directive was not made till finalization of this Audit Report.

Audit recommends for early compliance of DAC's directive.

(DP. 105&107)

**2.4.46 Absence of monitoring report for effective utilization of additional foreign investment on Centaurus Shopping Mall F-8/G-8 - Rs 900.00 million**

As per clause (e) of amended agreement dated 9<sup>th</sup> December, 2005 with CDA and M/s Pak. Gulf Construction Pvt. Ltd was required to invest Rs 900.00 million additional funds to start the construction and related activities. Said investment shall be monitored by a reputed International Chartered Accountants' firm in Pakistan, which will be duly appointed within thirty days of signing of the sale agreement with mutual consent of the parties and paid for by the purchaser. This Chartered Accountants' firm will submit quarterly report to CDA and purchaser under an agreed scope to work.

Audit noted that Director Project Management Office (PMO), CDA through Member Finance, was responsible to monitor the investment of the Additional funds of Rs 900.00 million for the construction related activities and to demand/arrange audit reports of the Chartered Accountants' firm.

It was observed that audit of additional investment was neither carried out nor was any reports submitted to the CDA. This resulted in a loss of opportunity for additional foreign investment of Rs 900.00 million in the country.

In the absence of monitoring reports of Chartered Accountants, Audit was not in a position to verify the foreign investment. This showed weak/ineffective contract administration on the part of CDA.

Audit pointed out the violation in March 2014. The Authority did not respond to audit observation.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that clauses of agreement may be implemented in letter & spirit at the earliest, besides audit of additional investment Rs 900.00 million may be got conducted from the Chartered Accountants at the earliest under intimation to Audit.

(DP. 180)

#### **2.4.47 Non-removal / Non-recovery of fine for non-conforming use of residential buildings - Rs 758.10 million**

The Honourable Supreme Court of Pakistan while hearing Civil Petition No. 1328 of 2014 on 15<sup>th</sup> September, 2015 regarding non-conforming establishments in residential areas of Islamabad adjourned its proceedings with the directions to CDA to take action against all those who are violating the rules and regulations, by using the properties for the purposes other than those for which these were leased out. The compliance report in this regard was required to be submitted by the CDA on the next date of hearing after three months. The apex court also directed Deputy Commissioner, CDA to dispose off the matter expeditiously after hearing the applicants against whom action was taken by the CDA and submit report to this effect through the Deputy Attorney General of Pakistan.

According to Section 2.17 of Zoning (Building Control) Regulations, 2005 (Ban on non-conforming uses), no land or building shall be put to a non-conforming use. A non-conforming use of a residential building may render the owner and occupant of the building

liable on 1<sup>st</sup> conviction to pay a fine of Rs 0.50 million and in case of failure, to discontinue the non-conforming use within fifteen (15) days, an additional fine of Rs 5,000 for every day upto three (03) months. The owner or the occupant, as the case may be, shall be liable to be evicted from the building and the allotment deed of the plot be cancelled. Deputy Commissioner, CDA is vested with power under Section 49-C of CDA Ordinance, 1960 to impose the said fine.

Audit noted that the above mentioned directions were issued by the Honourable Supreme Court on a report presented on non-conforming use in residential areas comprising 2,262 cases of schools, academies, hotels, offices, shops, hospitals, clinics and show rooms.

Audit observed during audit of the record of Building Control Directorate and Enforcement Directorate, that Deputy Commissioner CDA in exercise of powers conferred to him under CDA Ordinance, 1960 and Building & Zoning Regulations, 2005, imposed fine against only 798 owners for non-conforming use of residential buildings in Islamabad @ Rs 500,000 each but recovery was not effected. This resulted into non-removal of non-conforming use of residential buildings and non-recovery of fine of Rs 758.10 million as worked out below:

- Fine imposed on 1<sup>st</sup> conviction =Rs 500,000x798 =Rs 399,000,000
- Recoverable fine up to 90 days =Rs 5,000x90x798=Rs 359,100,000
- Total =Rs 758,100,000**

Audit pointed out the irregularity in May and September, 2015. The Authority replied that in compliance with the Supreme Court directions, CDA had started a massive campaign against non-conforming use in residential areas of Islamabad and sealed 66 premises on account of violations. The Authority further replied that CDA has received Rs 6.80 million on account of fine for non-conforming use. Further, progress would be shared in due course of time.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends early recovery of fine and removal of non-conforming use of residential buildings.

(DP. 26, 87, 88)

#### **2.4.48 Unauthentic payment without detailed measurement in measurement book - Rs 485.89 million**

Paras 208-209 of CPWA Code provide that payments for all works done and for all supplies are made on the basis of measurements recorded in Measurement Book (MB). The MB should, therefore be, considered very important accounts record. As all payments for work or supplies are based on the quantities recorded in the MB, it is incumbent upon the person taking the measurements to record the quantities clearly and accurately.

Audit noted that Deputy Director Road-III, CDA Islamabad made payments of Rs 485.89 million to the contractor of work “Construction of Pakistan Day Parade Ground” without recording detailed measurements of each item of work done in the measurement book in violation of rules. This resulted in unauthentic payment of Rs 485.89 million.

Audit holds that the non-recording of detailed measurements was due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the irregularity in July 2015. The Authority replied that a number of changes were constantly being made during the construction stage. Payments were made after certification of the consultants. However, abstract of cost was recorded in Measurement Book.

The reply was not tenable because recording of detailed measurements of work done in MB was a codal requirement and it was to form basis of payments to the contractor.

The matter was discussed in DAC meeting held on 3<sup>rd</sup> February, 2016. CDA explained that technical construction supervision of the project was assigned to the consultant and all the payments were made on the basis of IPCs verified by him. The Committee was not convinced and directed CDA to make detailed record entries in the Measurement Books as per actual work done at site of this project as well all future projects and get it verified from Audit within fifteen (15) days.

The compliance of DAC's directive was not made till the finalization of this Audit Report.

Audit recommends early compliance of DAC's directive.

(DP. 249)

#### **2.4.49 Non-recovery of Property Tax and Water & Allied Charges from Semi Government/Autonomous bodies/Commercial/Residential Properties - Rs 371.94 million**

According to Section 49-A of CDA Ordinance, 1960, any sum due to the Authority from or any sum wrongly paid to any person under this Ordinance shall be recoverable as arrears of land revenue.

Audit observed that Revenue Directorate CDA did not recover Property Tax and Water & Allied charges of Rs 371.94 million outstanding since long against the various commercial and residential properties. This resulted into non-recovery of Rs 371.94 million.

Audit holds that non-recovery of outstanding dues occurred due to non-pursuance of the matter properly by the management and ineffective implementation of administrative, internal and financial controls.

Audit pointed out the non-recovery in March/April 2015. The Authority did not reply.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends pursuance of recovery of outstanding dues besides strengthening of administrative, internal and financial controls to avoid any financial loss in future.

(DP. 15)

#### **2.4.50 Unauthentic consumption of POL valuing Rs 365.81 million**

According to Rule-I of CDA Procedure Manual Part-II, every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of expenditure of his own money.

**2.4.50.1** Audit noted that Deputy Director (Operations), MPO Directorate, CDA Islamabad issued diesel/petrol from G-7 and H-10 petrol pumps and tanker to CDA machines and vehicles against indents without mentioning registration number of vehicles.

Audit observed that during the year 2014-15 diesel and petrol worth Rs 345.78 million was issued but no detail of work done by the machine i.e. proper estimate of the work to be done, measurement of work done per hour/KM, consumption of machine on actual basis was available. Only bulk supply of POL was made to these machines on regular basis without getting approval as well as vetting of Log books from competent authority. Moreover, bulk supply of POL was also made for generators, machines etc. for which no detailed record was attached with indents. This resulted into unauthentic consumption of diesel/ POL for Rs 345.78 million.

Audit holds that irregularity occurred due to lack of oversight mechanism for implementation of internal controls.

Audit pointed out the unauthentic consumption in July 2015. The Authority replied that the relevant Division/Directorate of CDA issues combined indent on daily basis as per their requirement for the vehicles/machines and Operation Division maintains the record

accordingly. However, POL staff has also been directed to maintain the vehicle-wise petrol/diesel issue registers and the same will be shown to Audit. As regard the bulk supply of fuel diesel / petrol to the generators of different formations of CDA, the same was issued to meet the emergency during load shedding against the special indents issued by the formations concerned and these Divisions / Directorates are maintaining the log books.

The reply was not tenable as the detailed record mentioned in the observation was not shown.

The matter was discussed in DAC meeting held on 3<sup>rd</sup> February, 2016. The Authority explained that CDA formations issued combine indents for issuance of POL on daily basis as per their requirements for the vehicles and machines. However, the staff of MPO has been directed to maintain vehicle-wise POL Issue Register to check the stock. The Committee was not satisfied with the explanation and directed CDA to maintain vehicle-wise record showing Registration Nos. and consumption of POL duly authenticated by the users and get it verified from Audit.

The compliance of DAC's directive was not made till the finalization of this Audit Report.

Audit recommends that DAC's directive be complied with at the earliest.

(DP. 65)

**2.4.50.2** Audit noted that the Directors Environment (East) and Environment (Regional) CDA, Islamabad issued 200,311 liters of diesel valuing Rs 20.03 million for running and maintenance of machinery for execution of work on day to day basis as detailed below:

(Rs in million)

<b>Directorate</b>	<b>POL issued (Liters)</b>	<b>Amount</b>
Environment (East)	137,364	13.74
Environment (Regional)	62,947	6.29
<b>Total</b>	<b>200,311</b>	<b>20.03</b>



Audit observed that work performed by the machinery was neither measured nor recorded for analysis purpose. Issuance of POL without measuring the work done by the machinery was not justifiable. This resulted into unauthentic consumption of diesel/ POL for Rs 20.03 million.

Audit holds that irregularity occurred due to lack of oversight mechanism for implementation of internal controls.

Audit pointed out the unauthentic consumption of POL in July and September 2015. The Authority replied that POL was issued on daily basis for the execution of different maintenance works i.e. lawn moving, carriage of plants, watering, grading, dressing, carriage of soft soil and was also entered into Log Books with detail of work done.

The reply was not tenable as indent/work order to execute the work by using machinery and report of executed work along with its quantum was not available on record.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends justification of executed quantum of work vis-à-vis the POL consumed.

(DP. 228, 237)

#### **2.4.51 Loss on account of house rent allowance from government employees due to non-eviction of illegal occupants of 184 flats in Sector G-6, Islamabad - Rs 264.96 million**

According to Conduct of Business Regulations, 1985 CDA (Para-VI (4) pertaining to Enforcement Directorate), Enforcement Directorate is responsible to get unauthorized occupation of government accommodations vacated and their handing over to the enquiry offices concerned.

Audit noted that nine (9) accommodation blocks having 200 Category-A flats at G-6, Islamabad were constructed by CDA in 2003 from its own resources and cost thereof was to be met through PSDP funds. Subsequently, out of 200 flats, 184 flats were illegally occupied by the employees of ICT Police, CDA and other departments etc. As per CDA Byelaws/SOP, it was primary responsibility of Enforcement Directorate to get vacated illegal occupation of flats.

Audit observed that Director Enforcement CDA did not get the unauthorized occupation of government accommodations vacated. The matter was discussed at ministry level in November, 2010 wherein it was decided that CDA would initiate the process of forcible eviction of illegal occupants forthwith and complete it within one week with the assistance of ICT Administration/Police. Non-vacation of government flats from unauthorized occupation deprived the government of financial benefits in the shape of House Rent Allowance amounting to Rs 264.96 million (184 flats @ Rs 10,000 per month per flat for 12 years period from 2003 to 2015).

Audit holds that the loss occurred due to non-adherence to the CDA Byelaws/SOP and ineffective implementation of administrative, financial and internal controls.

Audit pointed out the loss in May 2015. The Authority did not reply.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that matter be investigated for fixing responsibility, appropriate action be taken against the person(s) at fault and eviction of the illegal occupants and handing over of the flats to the Enquiries Offices concerned.

(DP. 29)

**2.4.52 Non-recovery on account of rent of Contractor's Camp developed on CDA land adjacent to Centaurus Shopping Mall F-8/G-8 - Rs 207.36 million**

Section 15-A of CDA Act 1960 read with Section 122 of the Municipal Administration Ordinance 1960, Chapter-VIII, Clause-66, provides that no person shall encroach on the CDA land under the charge of the Authority or put up an immovable structure, or overhanging structure under any circumstances and rent as per prevailing market rates per square foot per month shall be payable in advance.

Audit observed that M/s Gulf Construction Company developed and constructed a camp on CDA land adjacent to Centaurus Shopping Mall F-8/G-8. Several CDA commercial plots adjacent to Centaurus Shopping Mall to 9<sup>th</sup> Avenue crossing were occupied by the contractor without obtaining prior approval. Contractor Camp, Asphalt Plants and Parking of developer was established without lawful authority and without obtaining permission from CDA authorities. Camp charges/fee was not collected by the CDA from the users. This resulted into unauthorized encroachment on CDA Land and non-recovery of rent of Rs 207.36 million.

2- Plots 10 Acres = 80 kanals = 432,000 sft  
432,000 sft @ Rs 20 per sft per month x 24 months = Rs 207.36 million

Audit holds that encroachment on CDA land happened due to non-fencing, weak vigilance and inadequate monitoring mechanism.

Audit pointed out the non-recovery in March 2014. The Authority replied that removal of encroachments from CDA land does not fall under the purview of Urban Planning Directorate. It concerns with Directorate of Enforcement of CDA.

The reply was not tenable as recovery on account of contractors camp developed on CDA land and removal of encroachment was the responsibility of CDA.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends early retrieval of land besides effecting recovery of ground rent.

(DP. 181)

#### **2.4.53 Excess payment due to execution of excessive quantities beyond the estimate - Rs 67.95 million**

Item 407.3.1(b) of specification provides that the criteria for pile length and bearing capacity will be determined by the Engineer according to the results from test piles and load tests. Pile in sand and gravel shall be driven to a bearing value determined by use of the pile driving formula or as decided by the Engineer. There was a provision of certain items in the BOQ/estimate for construction of cast-in-place piles 0.760 meter dia prepared by the consultant and duly technically sanctioned by the authority.

Audit noted that Director, Road Directorate (North), CDA executed and measured certain items of three bridges in a work “Addition of 3<sup>rd</sup> & 4<sup>th</sup> Lane to Kashmir Highway Section-I, South Carriageway” for quantities provided in the estimate of the work.

Audit observed that quantities of the sub-structure and super structure items i.e. concrete class-3 and steel reinforcement were enhanced manifold upto IPC-37 without any cogent technical reasons. This resulted into excess payment of Rs 67.95 million.

Audit holds that the excess payment was made due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the excess payment in July-August 2015. The Authority replied that design of Mechanically Stabilized Earth (MSE)

abutments of bridge No.1, 2, 3, 4, 5 and 6 was changed to conventional RCC abutment walls on the recommendations of Consultant due to various reasons including refusal of supplier of Mechanically Stabilized Earth (MSE) M/s Freyssinet, to take responsibility for stability of the abutments in wet conditions close to nullahs.

The reply was not relevant as Audit pointed out excessive measurements of sub structure and super structure of item of the bridge in violation of the approved design/drawing/estimate prepared by the consultant for 5-lane carriageway. MSE Structure was separately provided and it did not relate to sub structure and super structure of the bridges which was subsequently replaced with the conventional stone masonry retaining walls.

The matter was discussed in DAC meeting held on 3<sup>rd</sup> February, 2016. The Authority explained that design of Mechanically Stabilized Earth bridges was changed to conventional RCC abutment walls on the recommendations of the consultant due to the reasons the supplier refused to take the responsibility of the abutment in wet conditions closed to Nullahs. The Committee was not satisfied with the explanation as quantities of the items of work in the sub and supper structure were increased manifold without technical reasons and directed CDA to prepare comparison of cost and get it verified from Audit within a week.

The compliance of DAC's directive was not made till the finalization of this Audit Report.

Audit recommends that DAC's directive regarding cost comparison be complied with at the earliest.

(DP. 68)

#### **2.4.54 Non-recovery on account of hard rock material - Rs 32.27 million**

Item 106.2 of NHA Specifications "Construction Requirements" provides that "all suitable material excavated within the limits and scope

of the project shall be used in the most effective manner for the formation of the embankment, for widening of roadway, for backfill, or for other work included in the contract”.

Audit noted that Director Sector Development CDA executed a quantity of 54,626 cubic meter of item of work surplus medium rock and hard rock through blasting for the work Development of Sector D-12 Islamabad.

Audit observed that a quantity of 23,702 cubic meters was utilized in the formation of embankment, leaving a balance of 30,924 cu.m with the contractor but recovery of Rs 32.27 million @ Rs 1,043.54 per cu.m was not effected from the contractor.

Audit holds that recovery was not effected due to lack of oversight mechanism in observance of internal controls.

Audit pointed out the non-recovery in October 2015. The Authority replied that a quantity of 11,656 Cu. m of hard rock was handed over to Environment Protection Directorate CDA. As the work was in progress, there was possibility that available surplus material would be utilized in future in balance work. The surplus medium rock and hard rock remaining on project completion stage, if any, would be got stocked through the contractor and taken over for its disposal / handing over to Environment Directorate CDA.

The reply was not tenable as the received rock should have been utilized in the work instead of its handing over to Environment Directorate or its disposal out-side the right of way (no record for handing over of rock to Environment Directorate was shown to Audit).

The matter was discussed in DAC meeting held on 3<sup>rd</sup> February, 2016. CDA explained that 23,702 cu.m hard rock was used in the work and some quantity was handed over to the Environment Directorate CDA. Further surplus rock will be taken on stock register on the completion of

the work. The DAC directed CDA to get verify the accountal and utilization of the rock to audit within fifteen (15) days.

The compliance of DAC's directive was not made till the finalization of this Audit Report.

Audit recommends early compliance of DAC's directive.

(DP. 267)

#### **2.4.55 Non-recovery of License fee outstanding against M/s Warid Telecommunication - Rs 51.50 million**

Rule 26 of General Financial Rules (Vol-I) provides that it is the duty of the Departmental Controlling Officer to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the public account.

Audit noted that Director Municipal Administration CDA, Islamabad did not recover the license fee of Rs 51.50 million on account of installation of Base Transceiver Station (Towers) by M/s Warid Telecom due to some litigation between the parties.

Audit observed that the honourable Court, vide its decision dated 30<sup>th</sup> July, 2015 dismissed the writ petition No. 434 of 2011 lodged by M/s Warid Telecommunication, being meritless. This enabled CDA to take action and effect the recovery of the amount claimed but recovery was not effected. This resulted into non-recovery of Rs 51.50 million.

Audit pointed out the non-recovery in August 2015. The Authority did not respond to audit observation.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit emphasizes for early recovery of Rs 51.50 million.

(DP. 201)

#### **2.4.56 Non-recovery of damages and charges for use of CDA land from METRO Project contractors - Rs 24.80 million**

As per CDA Ordinance, 1960, CDA land cannot be occupied/used by the private parties without permission from the competent authority.

Audit noted that the Deputy Director Road-III got approved an estimate of Rs 248.00 million for completion of balance work of Parade Ground from CDA Board.

The summary of the case submitted to the Board disclosed that estimated cost of the balance work included the cost of damages caused by weather with passage of time and also by the contractors of Metro Project. The record was silent about allotment of site of work to the contractors of Metro Bus Project.

Audit holds that the premises was used without permission and CDA work was damaged. But neither the cost of damages was worked out nor recovered from the said contractors of Metro Bus Project along with charges for use of CDA land which caused loss to CDA. Insurance of work was not obtained from contractor to secure the damages. This resulted into non-recovery of about Rs 24.80 million (10% of cost of balance works).

Audit took up the matter with the management in July 2015. The Authority replied that the work of Parade Ground remained suspended due to non-payment to the contractor as CDA did not receive the 50% share from the Government for the execution of project. Due to stoppage of work for 7 years and being left unattended, there were following damages in the project works:

- i. Exhibition Road and the Car Park got damaged due to inclement weather and heavy rains over the years as there was no protection layer (wearing surface) to these works,



the rushing water had cut the surface deep and the granular materials was almost totally eroded.

- ii. Most of the storm water drains and ducts partially damaged due to mud deposits as the work was not complete and the out falls had not been constructed.
- iii. Minor settlements in the Parade Ground at 2 to 3 places. The METRO contractors were allowed to use the venue as casting yard by the Government. There were some damages by the METRO contractors which had been mostly rectified before they left the venue. Since, there was lot of pressure to complete the site and finish the work by 10<sup>th</sup> March, 2015, the work had to be under taken by CDA on emergency basis without following other formalities.

The reply was not tenable because mismanagement in execution of the work besides use of site and damages done by METRO contractors caused loss which was required to be recovered from the responsible(s).

The matter was discussed in the DAC meeting held on 3<sup>rd</sup> February, 2016. The Committee directed CDA to assess the loss caused by the contractors of Metro Bus Project and take up the matter with Rawalpindi Development Authority for recovery.

The compliance of DAC's directive was not made till finalization of this Audit Report.

Audit recommends early compliance of DAC's directive.

(DP.250)

#### **2.4.57 Overpayment due to allowing inadmissible item in violation of specification - Rs 24.64 million**

Item 101.2.1 of NHA General Specifications provides that operation of clearing and grubbing shall in no way be deemed to effect any level or volume change of the area. After clearing and grubbing, the

compaction of the area will be restored to the original value without any extra payment.

Audit noted that the Deputy Director Roads Division-III, CDA in the work “Construction of Pakistan Day Parade Ground, Islamabad” allowed payment for a quantity of 42,076.85 Cu.m for item Granular Back fill, 300 mm depth after clearing and grubbing whereas level disturbed was to be restored by the contractor as provided in the Specification. Allowing of separate payment for filling with 300mm depth after clearing and grubbing was contrary to provisions of the said specification. This resulted in an overpayment of Rs 24.64 million (42,076.85 @ Rs 585.67/Cu.m).

Audit holds that overpayment occurred due to lack of oversight mechanism for implementation of internal controls.

Audit took up the matter with the management in July 2015. The Authority replied that Consultants M/s ESS ESS Associates being “the Engineer” of the project had approved for release of granular back fill for 300mm as part of structural design for the car park above/after clearing and grubbing. It is a structural design element of car park and is not to make up the level of clearing and grubbing. Therefore, no undue benefit was given to contractor M/s FWO.

The reply was not tenable because filling upto 30 cm in the area after clearing and grubbing was paid contrary to provisions of the specifications.

The matter was discussed in the DAC meeting held on 3<sup>rd</sup> February, 2016. CDA admitted the overpayment and promised to effect the recovery from the next IPC of the contractor. The Committee directed to recover the admitted overpayment from the contractor and get it verified from Audit.

The compliance of DAC’s directive was not made till the finalization of this Audit Report.

Audit recommends for early compliance of DAC's directive.

(DP.252)

#### **2.4.58 Unauthentic/doubtful consumption of POL in Asphalt Mixing Plant - Rs 19.41 million**

Para 297 of Procedure Manual Part-III CDA provides that "the actual measurements of stores should be recorded in the "Measurement Book" on the day of receipt of stores in the Depot after their technical inspection by the Inspection Team of the Machinery Pool Organization (MPO) CDA. The pages of the book bear, in print, apart from their serial number, book number as well. The book will be written neatly in ink. The instructions prescribed for the writing, maintenance and up-keep of the works measurement, books will also apply mutatis-mutandis to these books as well.

Audit noted that the Deputy Director MPO Maintenance CDA, Islamabad utilized 268,010 liters Diesel in the Asphalt Mixing Plant as shown in the log book of Asphalt Plant maintained by the MPO Directorate during 2014-15.

Audit observed the following:

- i. No manufacturing estimate containing the input cost i.e. per hour fuel consumption, maintenance cost, allied expenditure and its output duly sanctioned by the competent Authority was prepared.
- ii. As per log book detailed record entries were not signed by any authority. Only consumption of POL was shown against detailed hours, which was not justified.
- iii. As per log book, the hire charges of working hours were calculated as Rs 21.30 million and the hire charges of idle hours were Rs 63.29 million which was three times more than working hours which was quite unjustified.

Audit holds that the unauthentic consumption was booked due to weak technical and internal controls and willful negligence by the officers.

Audit took up the matter with the management in July 2015. The Authority replied that the estimate for the repair/maintenance of the plant was made as per requirement and necessary work was executed on regular basis, record entries were signed on month wise basis, however, consumption was recorded on daily basis and idle hour charges of plant were exempted by the higher authorities.

The reply was not tenable because no documentary evidence was produced in support of reply.

The matter was discussed in the DAC meeting held on 3<sup>rd</sup> February, 2016 wherein CDA management explained that firstly fuel is consumed for making the plant's heaters active and secondly during operation of plant it is used for melting bitumen as per required temperature and after start of the plant for carpeting works. The Committee was not satisfied with the explanation as the consumption of fuel for idle hours was three times higher than the working hours and directed CDA to produce approved Job Mix Formula and rational consumption of POL for idle as well as working hours of the asphalt mixing plant and get it verified from Audit within seven days.

The compliance of DAC's directive was not made till the finalization of this Audit Report.

Audit recommends for early compliance of DAC's directive.

(DP. 57)

#### **2.4.59 Less recovery/Undue benefit to the allottees on restoration of the plots - Rs 11.93 million**

According to provisional acceptance letter, 25% of bid price (including token money) is to be deposited within 72 hours of issuance of letter.

Audit noted that Director Estate Management-II, CDA Islamabad restored two plots in 5<sup>th</sup> CDA Board meeting for the year 2015 at new price. While calculating the remaining payable amount 25% of original bid deposited by the bidder was changed to 25% of restored price. This resulted into less recovery of Rs 11.93 million from the allottees.

Audit holds that undue benefit was allowed due to lack of oversight mechanism and weak internal financial controls.

Audit pointed out less recovery in November 2015. The Authority replied that restoration charges were worked out by Finance Wing, CDA. The Finance Wing, CDA has been asked for clarification of audit observation. No further response was received from CDA till the finalization of this Audit Report.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends early recovery of restoration charges.

(DP. 223)

#### **2.4.60 Overpayment to the pensioners by the Post Offices on account of increases in pension - Rs 8.24 million**

As per Rule 368 of Treasury Rules, the Disbursing Officer is personally responsible for any pension payment wrongly made and in all cases of doubt, he must consult the Accountant General (Director Accounts in case of CDA).

Audit noted that Pakistan Postal Services Corporation made payments on account of pension to the retired CDA employees through Post Offices.

Audit observed from Pension Register maintained by the Director Accounts, CDA that the post offices paid increases in pension, announced by the Government of Pakistan, to the pensioners in excess of those admissible. This resulted in an overpayment of Rs 8.24 million.

Audit holds that overpayment was made due to weak internal and financial controls.

Audit pointed out the overpayment in November 2015. The Authority did not reply.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that the recovery be made at the earliest.

(Para 08 of AIR)

#### **2.4.61 Overpayment due to incorrect mode of derivation of rate - Rs 9.41 million**

Item No.2.4 (captioned Formulae for Construction Items) of introduction to Composite Schedule of Rates, states that all the basic inputs have been updated in the individual rate analyses. These formulae have been created by appropriate quantitative inputs of the following items:

Manpower	Hour and Number
Material	Weight, Volume, Length and Unit.
Plant Equipment	Hour and Number
Overheads & Profit	15 percent and 10 percent respectively

Audit noted that Director, Road Directorate (North), CDA derived rate of an item of work “aggregate sub base”, an aggregate mix of item 201 (granular sub base) and 202 (aggregate base). Average rate of both these items was required to be taken from the CSR 2009.

Audit observed that rates were taken from the market instead of CSR 2009 after allowing escalation thereon. This incorrect mode of derivation of rate caused overpayment for Rs 9.41 million (7.20 + 2.21) to the contractor.

Audit holds that the overpayment was due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the overpayment in July/August 2015. Authority replied that rates of the item of work were derived from NHA- Composite Schedule of Rates 2009 on prorata basis prior to tendering, therefore after bidding it has become the lowest/competitive rates of the market.

The reply was not tenable as item rate of both components was required to be derived from the CSR rather than one from the market and the other from the CSR. The item rates provided in the estimate were taken from the CSR 2000 as such inclusion of the market rate therein was unjustified.

The matter was discussed in DAC meeting held on 3<sup>rd</sup> February, 2016. The Authority explained that the rate of new item was derived from NHA CSR 2009 and market rates on prorata basis before tendering. The Committee did not agree with the viewpoint of the Authority and directed to refer the case to Director (Quantity Survey) CDA for rationalization of the rates to be based on the NHA CSR-2009 and get it verified from Audit at the earliest.

The compliance of DAC’s directive was not made till the finalization of this Audit Report.

Audit recommends recovery of overpayment made due to incorrect rate of the item.

(DP. 70)

**2.4.62 Non-provision of facilities by the contractor as per contract -  
Rs 6.56 million**

As per terms and conditions of contract agreement, for the work “Construction of Major Roads in Sector, I-12, Islamabad” the contractor had to provide transport (03 # Vehicles & Honda Motor Cycle-125), Digital Camera, Photostat Machine etc. under the Sub-Head, “facilities to the engineers” and on completion of the defect liability period vehicles/ office facilities shall become property of CDA. The contractor is responsible to transfer the vehicles in the name of CDA as would be directed and shall also bear all the expenses of transference. No payment shall be made to the contractor on account of facilities to be provided.

Audit observed that 03 Nos Vehicles along with POL & Drivers, Laptop with printer-cum-copier, fax & scanner, Mobile Set, Digital Camera and Photostat Machine valuing Rs 6.56 million were not provided by the contractor but recovery on this account was not made from the contractor. This resulted in non-recovery of Rs 6.56 million from the contractor.

Audit holds that non-recovery was due to weak financial controls.

Audit took up the matter with the management in October 2015. The Authority replied that contractor provided one vehicle, Motor Cycle, Laptop, Printer and Mobile Set and was asked for provision of remaining items. Due recovery would be made for non-provision of facilities by the contractor.

The reply was not tenable because no record regarding provision of vehicles registered in the name of Authority was provided to Audit for verification. All the items were required to be obtained from the contractor



along with registration and recovery was to be made for POL and Driver's Pay.

The matter was discussed in the DAC meeting held on 3<sup>rd</sup> February, 2016. The Committee directed CDA to effect the admitted recovery from the contractor and get it verified from Audit at the earliest.

The compliance of DAC's directive was not made till finalization of this Audit Report.

Audit recommends early compliance of DAC's directive.

(DP. 265)

#### **2.4.63 Excess payment due to allowing premium on market rates - Rs 1.14 million**

According to Rule-I of CDA Procedure Manual Part-II, every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of expenditure of his own money. The expenditure should not be prima facie more than the occasion demands.

Audit noted that Deputy Director Market & Road Maintenance Directorate (South), CDA awarded a work for supply of Store Material (Tool & Plant) for I&H Sectors Enquiry Offices, CDA Islamabad at an agreement cost of Rs 2.84 million.

Scrutiny of 2<sup>nd</sup> running bill paid vide CV No. 01 dated 4<sup>th</sup> August, 2014 showed that estimate for all thirty (30) T&P items was based on non-scheduled rates (current market rates) against which a very high premium of 55.45% was allowed and paid to the contractor. Exactly same nature of work of supply of T&P Material under the Deputy Director Road Maintenance (North) was awarded to M/s N.A.Y Engineers in the same period which was accepted at 6.86% below the market rates. Payment of higher premium against market rate items resulted in excess

payment of Rs 1.14 million to the contractor i.e. 62.31% (55.45%+6.86%) of the estimated cost of Rs 1.83 million.

Audit holds that excess payment was made due to inadequate oversight mechanism and non-implementation of the relevant financial rules and internal controls to safeguard public interest.

Audit pointed out the irregularity in July 2015. The Authority replied that the rates taken in the estimate were based on prevailing market rates excluding income tax and sales tax. The contractor quoted rates keeping in view deduction of taxes which were accepted by the competent authority.

The reply was not tenable because analysis of rates prepared in the estimate were not produced in support of reply. Moreover, the rates paid were 55.45 % higher than the estimated rates which were unjustified.

The matter was discussed in the DAC meeting held on 3<sup>rd</sup> February, 2016 wherein CDA management admitted that different premium on market rates i.e. 55.45% above and 6.86% below for same nature of supplies were allowed in the same period. The DAC showed its concern over the acceptance of abnormally higher premium on market rates and directed to get verified the rate analysis based on markets rates from Audit within a week.

The compliance of DAC's directive was not made till finalization of this Audit Report.

Audit recommends for early compliance of DAC's directive.

(DP.78)

#### **2.4.64 Unauthorized/unjustified placement of ninety-eight CDA officers on current charge/look after basis**

Para 4.33 of CDA Regulations with regard to current charge of higher posts provides that where a temporary vacancy occurs for not more

than two months or where a regular vacancy occurs and no arrangement for carrying out the day to day routine work of post is possible, the charge of the vacant post may, with the approval of the appointing authority, be given temporarily, in addition to the duties of his own post, to the most Senior Officer in the cadre at the place, if he is otherwise fit and qualified to hold that post irrespective of length of service. The arrangement should not be made for a period of less than one month and should not exceed three months. However, it may be extended by another three months with the approval of the next higher authority. Any extension beyond six months shall require previous approval of the Chairman CDA.

Audit noted that Human Resources Directorate, CDA, allowed current charge/look after to 98 CDA officers since January, 2013 to March, 2015 without detailed justification and preparation of summaries for regular promotion of the officers to whom current charge in next grades was allowed.

Audit observed that initial period of three (03) months in most of cases had been expired but approval/authorization of the next higher authority i.e. Chairman CDA/Secretary Cabinet was not obtained and placed in the personal records of these officers. Perusal of statement/details of current charge/look after arrangements revealed that CDA was being run by current charge/look after arrangements.

Audit holds that current charge/look after arrangements in CDA was due to inefficiency/mis-management and failure of internal controls on the part of the Human Resources Directorate (HRD).

Audit pointed out the irregularity in March, 2015. The Authority did not reply.

Audit recommends that regular officers may be posted on the posts and current charge/look after cases be got regularized from next higher authority.

(DP. 37)

## **CHAPTER 3**

### **CIVIL AVIATION AUTHORITY (AVIATION DIVISION)**

#### **3.1 Introduction**

Pakistan Civil Aviation Authority (CAA) is a public sector autonomous body working under the Federal Government of Pakistan through Aviation Division, Cabinet Secretariat. CAA was established on 7<sup>th</sup> December, 1982 through Pakistan Civil Aviation Authority Ordinance 1982. Prior to creation of CAA, a Civil Aviation Department in the Ministry of Defence used to manage the Civil Aviation related activities. Ministry of Defence continued to be the controlling Ministry even after creation of CAA on 7<sup>th</sup> December, 1982. However, in June, 2013, Government of Pakistan assigned this responsibility to Aviation Division.

The purpose of establishing CAA is to provide for the promotion and regulations of Civil Aviation activities and to develop an infrastructure for safe, efficient, adequate, economical and properly coordinated Civil Air Transport Service in Pakistan. CAA not only plays the role of the aviation regulator of the country but at the same time performs the service provider functions of Air Navigation Services and Airport Services. The core functions of CAA are therefore, ‘Regulatory’, ‘Air Navigation Services’ and ‘Airport Services’. These core functions are fully supported by various corporate functions of the organization.

The general direction and administration of CAA and its affairs vests in CAA Board which exercises all powers, performs all functions and does all acts and things that need to be exercised, performed or done by the Authority. The Chairman CAA Board is the Secretary of the Division to which the affairs of the Authority are allocated. Presently, it is the Secretary Aviation. CAA Executive Committee is the highest decision making body of the Organization. It exercises such administrative, executive, financial and technical powers as delegated to it by the Authority. Director General CAA is the Chairman of CAA Executive

Committee. The Federal Government appoints the Director General who is the Executive head of CAA and exercises such powers and performs such functions as may be specified in CAA Ordinance or delegated to him by the CAA Board from time to time. The CAA Board is assisted by CAA HR (Human Resources) Committee and CAA Audit Committee. The Director General is assisted by the Deputy Director General, Directors and Additional Directors. The Director (Finance) controls the budget and enforces the internal financial controls/checks. Internal Audit Department is headed by an Additional Director under the direct supervision of the Director General. The Headquarters of the CAA are situated at Karachi.

### 3.2 Comments on Budget and Accounts (Variance Analysis)

Financial Statements of CAA for the financial year 2014-15 disclosed the figures of budget and expenditure as under:

#### a. Budget and Expenditure

(Rs in million)

Description	Budget	Actual Expense	Excess/ (Saving)	Excess/ (Saving) %
Establishment	18,320.69	18,012.85	(307.84)	(1.68)
Administrative Expenditure	3,018.53	2,773.27	(245.26)	(8.13)
Repair & maintenance	853.10	744.86	(108.24)	(12.69)
Provision for doubtful receivables	6,887.42	7,427.95	540.53	7.85
Depreciation	4,260.10	3,940.26	(319.84)	(7.51)
Financial charges	8.62	8.55	(0.07)	(0.81)
<b>Sub-Total</b>	<b>33,348.46</b>	<b>32,907.74</b>	<b>(440.72)</b>	<b>(1.31)</b>
Annual Development Programme	27,251.39	13,036.99	(14,214.40)	(52.16)
<b>Total</b>	<b>60,599.85</b>	<b>45,944.73</b>	<b>(14,655.12)</b>	<b>(24.18)</b>

The total budget allocation for the year 2014-15 in non-development and annual development programme was Rs 60,599.85 million against which an expenditure of Rs 45,944.73 million was incurred. This resulted in a saving of Rs 14,655.12 million representing 24.18% of total budget allocation.

Audit noted that:

- The non-development expenditure of the Authority was 1.32% less than the approved budget. The non-development expenditure was increased from the last year's expenditure (Rs 24,023.67 million) to Rs 32,907.74 million. Increase of Rs 8,884.07 million (36.98%) was mainly due to revision of pay scales.
- In non-development expenditure the provision for doubtful receivables was increased to 7.8% than the approved budget, which shows ineffectiveness of internal controls regarding realization of revenue/receivables.
- In Annual Development Programme (ADP) budget, there was a saving of Rs 14,214.40 million representing 52.16% of the budget allocation. This suggests that the Authority was not able to fully utilize its allocated budget for development resulting delay in completion of various infrastructure projects.

**b. Revenue**

**(Rs in million)**

Description	Target	2014-15		
		Realized	Excess/ Shortfall)	Excess/ (Shortfall) %
Aeronautical	43,184.13	43,825.78	641.65	1.49
Non-Aeronautical	6,806.22	6,992.80	186.58	2.74
<b>Total</b>	<b>49,990.35</b>	<b>50,818.58</b>	<b>828.23</b>	<b>1.66</b>

The aeronautical revenue realized was 1.49% higher than the target due to revision of route navigation charges and airport charges whereas; non-aeronautical revenue was 2.74% more than the targeted revenue due to increased commercial activities. The overall revenue realized was Rs 50,818.58 million, for the financial year 2014-15 representing 1.6% more than the targeted revenue. Revenue realized during the year is higher than the revenue realized for the previous year which was Rs 47,583.82 million.

**c. Balance Sheet**

Accounting ratios and trend analysis (along with comments) have been used to measure the strengths and weaknesses of the Authority's financial position for the year ended 30<sup>th</sup> June, 2015.

**(i) Liquidity Position**

Liquidity ratios (Current Ratio, Quick Ratio and Net Working Capital) are used to measure the Authority's ability to meet the short term obligations.

(Rs in million)

Ratios		Formulae	2014-15	2013-14
A	Current Ratio	<u>Current Assets</u>	39,400	34,378
		Current Liabilities	7,415	6,839
			5.31 : 1	5.02 : 1
B	Quick Ratio	<u>Cash + Bank + Short Term</u>	15,810	15,234
		<u>Investments</u>	7,415	6,839
		Current Liabilities	2.13: 1	2.22: 1
C	Net Working Capital	(Current Assets – Current Liabilities)	39,400- 7,415 =31,985	34,378- 6,839 =27,539

#### A. Current Ratio

A widely used thumb rule is that a Current Ratio of 2:1 is satisfactory. By this standard, the Authority's current ratio of 5.31:1 for the Financial Year 2014-15 is satisfactory, and increased from 5.02:1 for Financial Year 2013-14.

#### B. Quick Ratio

As per generally accepted guidelines, the ratio of 1:1 is considered satisfactory. By this standard, the Authority's Quick Ratio 2.13:1 is also satisfactory. As compared to the previous Financial Year 2013-14, this ratio has decreased from 2.22:1.

#### C. Net Working Capital

Positive Working Capital of Rs 31,985 million shows that the Authority is in a position to meet out its current Working Capital needs.

Overall Liquidity Position of Authority is satisfactory.

#### (ii). Profitability Ratios

These ratios are used to measure the efficiency of the organization and optimal utilization of assets towards achievement of organizational goals.

	<b>Ratio</b>	<b>Formulae</b>	<b>2014- 15</b>	<b>2013-14</b>
<b>A</b>	Net Profit Margin	$\frac{\text{Net Profit after Taxes}}{\text{Net Revenue}}$	$\frac{13,355}{50,819}$ = 26.27%	$\frac{19,881}{47,584}$ = 41.78 %
<b>B</b>	Return on Investment	$\frac{\text{Net Profit after Taxes}}{\text{Total Assets}}$	$\frac{13,355}{294,876}$ = 4.52%	$\frac{19,881}{281,204}$ = 7.07%
<b>C</b>	Total Assets Turnover	$\frac{\text{Revenue}}{\text{Total Assets}}$	$\frac{50,819}{294,876}$ = 17.23%	$\frac{47,584}{281,204}$ = 16.92%



It is noted that during Financial Year 2014-15, the Authority's revenue increased by Rs 3,235 million but the net profit decreased by Rs 6,526 million as compared to the previous year, which shows excessive expenditure during the year. Net Profit Margin ratio decreased to 26.27% (Financial Year 2013-14: 41.78%).

Return on Investment for the year decreased to 4.52% (Financial Year 2013-14: 7.07 %), Total Asset Turnover increased to 17.23% (Financial Year 2013-14: 16.92%).

Authority's overall 'Profitability Position' and 'Liquidity Position' is satisfactory and depicts a sound financial performance.

### **3.3 Brief comments on the status of compliance with PAC's directives**

Compliance position of PAC's directives on Audit Reports relating to Civil Aviation Authority is as under:

<b>Year</b>	<b>Total Paras</b>	<b>No. of Paras Discussed</b>	<b>Compliance Made</b>	<b>Compliance Awaited</b>	<b>Percentage of Compliance</b>
1989-90	01	01	01	-	100.0
1990-91	09 CAA + 3 Ex-ADA + 1 PAR (10)	12	09	3 Ex ADA+ 1 PAR	75.0
1991-92	26	26	05	21	19.23
1992-93	33 CAA + 5 Ex-ADA + 1 PAR(14)	38	26	07 + Ex- ADA+01 PAR	68.42
1993-94	49	49	15	34	30.61
1994-95	08	08	05	03	62.50
1995-96	14	14	07	07	50.0
1996-97	20	20	16	04	80.0

<b>Year</b>	<b>Total Paras</b>	<b>No. of Paras Discussed</b>	<b>Compliance Made</b>	<b>Compliance Awaited</b>	<b>Percentage of Compliance</b>
1997-98	91	91	75	16	82.41
	2 SAR	2	-	2	-
1998-99	46	46	35	11	76.09
1999-00	63	63	32	31	51.00
2000-01	83	83	60	23	72.00
2001-02	14	14	10	04	71.42
2003-04	21	21	16	5	76.19
2004-05	10	10	07	03	70.0
2005-06	13	13	10	03	76.92
2006-07	09	09	05	04	55.55
2007-08	06	06	03	03	50.0
2008-09	17	17	09	08	52.94
2010-11	56	56	30	26	53.57
	25 PAR	25	19	6	76.0
	16 PAR	16	11	5	68.75
	33 PAR	33	17	16	51.52

Note: Audit Reports for 1985-86, 1986-87, 1988-89, 2002-03, 2009-10, 2011-12, 2012-13, 2013-14 and 2014-15 have not been discussed by PAC till the finalization of this Audit Report.

### **3.4 AUDIT PARAS**

#### **Irregularity and Non-Compliance**

##### **3.4.1 Irregular/unauthorized award of work to a non-specialized firm/JV - Rs 20,286.04 million**

As per PEC Bye Laws no engineering work shall be constructed except by a constructor or operated except by an operator licensed as such by a Council. The licence issued to the constructor or operator shall specifically mention the type of work that the constructor or operator can undertake according to discipline shown in the application form prescribed in the Appendix-A.

Audit noted during review of the record that CAA Management awarded work Package-III, Passenger Terminal Building (New Islamabad International Airport Project) to JV M/s China State Construction Engineering Corporation - FWO at cost of Rs 20,286.04 million. The Terminal building was of specialized nature having huge steel structural concrete works architectural work glazing and electrical, mechanical works, as such registration and specialization was required in relevant field i.e. BC01, EE01 to EE09 and ME01 to ME06.

A review of JV agreement indicated that M/s CSCEC lead partner with 70% share in the JV whereas said firm is registered with PEC in the field of specialization CE-1 Road and pavements and CE-10 General Civil Engineering works only. This state of affair indicated that lead partner of the JV was not registered under relevant specialization which was mandatory requirement of the award of work. Audit holds that award of work to a non-specialized JV caused slow execution of work and inordinate delay in completion of work.

Non-adherence to PEC Bye Laws caused irregular/unauthorized award of work to a non- specialized firm/JV for Rs 20,286.04 million.

Audit pointed out the irregularity in November 2015. The Authority replied that in March 2010, Pakistan Engineering Council issued specific Licence in 07 Categories to M/s China State Construction Engineering in Joint Venture Agreement with M/S FWO, for the Project “Passenger Terminal Building (Package-3) at IIAP”. Thus the main requirement as per PEC Bye Laws stands fulfilled by the J/V and no irregularity committed in the Award of Work.

The reply was not tenable because the partner of the JV was not registered under relevant specialization for building and electrical & mechanical works as specified in the para which was mandatory requirement of the award of said project.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends a probe into the matter and action against persons responsible.

(Para 5 of AIR-NIIAP)

### **3.4.2 Irregular release of Bank Guarantee - Rs 1,556.47 million**

Para 7 (vii) of the Supreme Court of Pakistan Orders dated 25<sup>th</sup> September, 2013 in respect of Constitutional Petition 33 of 2013 (irregularities in construction of new Benazir Bhutto International Airport Islamabad) denotes that “As regards report of the Auditor General in respect of overpayment of Rs 1,556.47 million is concerned, this Audit Objection so far has not been removed, therefore, LTH (JV) is required to deposit this amount with the Exchequer within a period of seven days subject to intimation to the Registrar for our perusal in Chambers”.

Audit noted that in compliance of the above orders the contractor deposited Rs 1,556.47 million on 2<sup>nd</sup> October, 2013 in Civil Aviation Authority’s account and subsequently filed a review petition in the Honourable Supreme Court of Pakistan. The Honourable Supreme Court of Pakistan passed an order on 5<sup>th</sup> December, 2013 and allowed the

contractor to substitute the Bank Guarantee equal to the amount of Rs 1,556.47 million and directed to take up this issue with the Authority and get it decided either way, not later than three months.” In compliance, the Authority accepted the Bank Guarantee valid upto 28<sup>th</sup> October 2014 and released the deposited amount to the contractor on 20<sup>th</sup> May, 2014.

Audit further noted that the Departmental Accounts Committee while discussing the issue constituted an Inter Department Committee (IDC). The report of the IDC was further discussed in the DAC meeting held on 11<sup>th</sup> August, 2014 wherein, the Committee observed that the Project Management Consultant (PMC) in his capacity as the Engineer has failed to perform as PMC and Project Management Unit (PMU) by not playing a proactive role to safeguard public interest. The cost of PMC and PMU inefficiency was borne by CAA. The DAC directed CAA to handle disputes/ claims through recourse to Dispute Review Board (DRB), amicable settlement and / or Arbitration or any other legal forum in the light of Contract Agreement. DAC further directed DG CAA for initiating disciplinary action against the responsible and recovery of financial loss from the responsible(s).

Audit observed that the Authority released the Bank Guarantee of Rs 1,556.47 million to the contractor without compliance to the DAC directives regarding settlement of issues, recovery of losses and initiating disciplinary action against the responsible(s). This resulted in irregular release of Bank Guarantee amounting to Rs 1,556.47 million.

Audit holds that irregular release of Bank Guarantee was due to weak internal/financial controls.

Audit pointed out the irregularity in November 2015. The Authority replied that the matter was investigated by the Federal Investigation Agency (FIA) who submitted its report in the Honourable Supreme Court of Pakistan in which no blame was fixed on the contractor for the observations contained in the Audit Para, therefore, Bank Guarantee was released.

The reply was not tenable because as per the honourable Supreme Court's orders the Guarantee should have been released "if payment are cleared in accordance with law and rules and in view of the observations" whereas, the Authority released the bank guarantee to defaulting company without settlement of disputes and recovery of losses.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends recovery of losses and fixing of responsibility against persons responsible(s).

(Para 1 of AIR NIIAP)

### **3.4.3 Irregular award of consultancy contract - Rs 996.84 million**

According to Rule 40 of Public Procurement Rules, 2004, there shall be no negotiations with the bidders having submitted the lowest evaluated bid or with any other bidder. Further, as per documents of proposals for balance work of consultancy for the project New Islamabad International Airport, the evaluation criteria was based on Quality and Cost based selection with 80:20 weightages assigned to technical and financial proposals respectively. Cut off line for a technically acceptable proposal was fixed as 70%.

Audit noted that an agreement was executed with M/s Mott MacDonald Limited (United Kingdom) in association with MM Pakistan (Pvt.) Limited in May 2015 for consultancy services of balance work for Rs 996.84 million. Audit further noted that two consultants were technically qualified with 85.99% and 73.61% weightage with financial bid of Rs 1,936.06 million and Rs 1,507.90 million respectively. The overall marks secured in the light of prescribed rules and regulations were 84.37% and 78.89% respectively.

Audit observed that the authority decided to negotiate with M/s Mott Macdonald only and work was awarded to them, whereas, the other consultant was also meeting the requirement of 70% cut off line which

was totally ignored. This resulted in irregular award of work amounting to Rs 996.84 million.

Audit holds that the irregularity was due to weak internal/financial controls and non-adherence to rules and regulations.

Audit pointed out the irregularity in November 2015. The Authority replied that negotiation was made with the highest ranked Bidder in accordance with the relevant clauses of the Consultancy Services Regulations-2010 of PPRA.

The reply was not tenable because as per PPRA Rules, the procuring agency may negotiate with the highest ranked bidder regarding methodology, work plan, staffing and special conditions of the contract. The negotiations were, therefore, admissible on technical aspects and not on financial side.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends fixing of responsibility against persons responsible for violation of Public Procurement Rules.

(Para 8 of AIR NIIAP)

#### **3.4.4 Irregular execution of lease agreement and non-recovery - Rs 483.65 million**

According to para-5 of Land Lease Policy 2001, comprehensive review of the Land Lease Policy was carried out to remove the irritants and to soften the rigid components without compromising the CAA's interest with a view to make the policy more attractive/ investor friendly.

Audit noted that the Civil Aviation Authority's Board in its meeting held on 16<sup>th</sup>-17<sup>th</sup> January, 2015 approved to lease out 06 acres land each at Jinnah International Airport (JIAP) Karachi and Allama Iqbal International Airport (AIIAP) Lahore for a period of 30 years

@ Rs 12,000 and Rs 23,000 per Sq. yd respectively to M/s Pakistan Software Export Board (PSEB) for establishment of IT Parks on upfront payment of Rs 983.50 million. The lessee made payment of Rs 499.85 million on 8<sup>th</sup> May, 2008 leaving a balance of Rs 483.65 million. The lease agreement for the land of JIAP was executed on 1<sup>st</sup> October 2015 for 30 years.

Audit observed that the land of JIAP was already mortgaged against Sukuk Bond issued by the Federal Government and Board of Revenue Sindh marked red entries on the Form VII (Mutation Form) and did not issue NOC which was mandatory for registration of the lease agreement. Audit further observed that the Authority also could not recover the balance amount of Rs 483.65 million. Audit is of the view that the lease agreement on already mortgaged land resulted in defective lease agreement as well as non-recovery of balance payment of Rs 483.65 million.

Audit holds that the irregularity was due to weak internal/financial controls.

Audit pointed out the irregularity in November, 2015. The Authority replied that Federal Govt. through Ministry of Defence and Ministry of Finance mortgaged CAA's land against issuance of Sukuk bonds, which is going to expire on 31<sup>st</sup> December, 2015. However, ownership of the land stands in the name of CAA. After expiry of the Sukuk bonds, the lease agreement will be got registered from the Registrar of the District concerned.

The reply was not tenable because technically, the land could not be leased out before the expiry of Sukuk Bond. Red Entries in the Mutation Form by the Board of Revenue (BOR), Sindh indicated that no action may be taken with the land.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.



Audit recommends that matter be investigated and responsibility fixed against persons responsible for defective lease and non-recovery.

(DP.23,155)

#### **3.4.5 Irregular award of concession license to single/sitting licensees without healthy competition - Rs 438.33 million**

Rule 4 of Public Procurement Rules, 2004 provides that 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. Rule 38 of PPRA further provides that the bidder with the lowest evaluated bid shall be awarded the procurement contract, within the original or extended period of bid validity.

Audit noted that Chief Commercial and Marketing Officer (CCMO) HQCAA Karachi was responsible for commercial utilization of CAA land, shops, concessions located at all the airports of Pakistan to generate non-aeronautical revenue in transparent manner.

Audit observed that some concessions at various airports were awarded to single/sitting licensees working since long by twisting evaluating tools in their favour and allowing nominal increase in the reserve price. This state of affair led to unhealthy and non-transparent competition in award of concessions involving Rs 438.33 million.

Audit holds that the irregularity was due to weak internal/financial controls.

Audit pointed out the irregularity in November 2015. The Authority replied that they have fulfilled all the codal formalities and PPRA did not bar on number of tenders/bids received in response to tender notices.

The reply was not tenable as a continuous possession of concessions by the licensee for the decades is clear cut indication of plotting in the award. Audit recommends holding of inquiry to probe into the matter with a view to revise/improve the bidding process by removing flaws especially in the technical evaluation to curb the prevailing trend of awarding the concession to the sitting/single licensee.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends holding of inquiry for fixation of responsibility against persons at fault.

(DP.3,165, AIR-17 of CCMO)

#### **3.4.6 Irregular payment of arrears of pay and allowances - Rs 143.38 million**

As per directions issued by Finance Division, vide O.M No.F.1 (38)-IMP-II/88, dated 11<sup>th</sup> July, 1988, financial matters including revision of pay and allowances etc. cannot be decided without prior concurrence of the Finance Division. Further, Aviation Division issued instructions vide letter No.11-2/2002-CAA dated 8<sup>th</sup> March, 2007, that financial matters including financial implications particularly, increase in pay and allowances require prior clearance of the Finance Division. It is binding on the Authority to follow directives on the policy matters issued by the Federal Government under Section 4 of Civil Aviation Authority Ordinance, 1982.

Audit noted that Civil Aviation Authority revised its pay groups w.e.f. 1<sup>st</sup> July, 2014 and made payment on account of arrears of pay and allowances for the period July 2014 to October 2014 amounting to Rs 143.38 million.

Audit observed that the Authority made payment prior to concurrence of Ministry of Finance and Aviation Division. This resulted in irregular payment of Rs 143.38 million.

Audit holds that the irregularity was due to weak internal/financial controls.

Audit pointed out the irregularity in October-November 2015. The Authority replied that Rationalized Pay Structure-2014 was introduced regarding revision of basic pay and allowances of CAA employees with the approval of CAA Board.

The reply was not tenable because no concurrence of Finance Division for revision of pay and allowances was obtained.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends fixing of responsibility against persons responsible.

(DP.58,93,106,107,109,110,111,115,127,128,178)

#### **3.4.7 Irregular execution of works without approval from competent forum - Rs 84.12 million**

As per Government of Pakistan, Planning and Development Division letter dated 18<sup>th</sup> December, 2004, the autonomous organizations whether commercial or non-commercial having board by whatever name called, should be competent to sanction their development schemes with 100% self-financing with no government guarantee and involving less than 25% foreign exchange/foreign assistance, subject to the following:

- A Development Working Party should be constituted by each organization and notified to consider and approve their self-financed projects.
- The Development Working Party should be headed by the Chairman/head of the Organization and, among others, should include representatives of the Planning & Development Division,

the Finance Division, and the Ministry/Division concerned, each not below the rank of Joint Secretary.

- The decision of the Development Working Party will be subject to the endorsement of the board of the organization.
- According to Government of Pakistan Planning and Development Division, project guide lines DDWP was empowered to approve project upto Rs 60 million.

Audit noted that the Civil Aviation Authority awarded two works “Construction of Mini Market in Coconut Orchard area at JIAP Karachi” and “Construction of Bachelor Officers Accommodations at JIAP” at bid price of Rs 41.96 million and Rs 42.16 million, respectively against estimated cost of Rs 49.00 million and Rs 49.83 million, respectively.

Audit observed that the projects were not got approved from the Development Working Party as directed by Planning and Development Division, Govt. of Pakistan. This resulted in irregular execution of projects costing Rs 84.12 million.

Audit holds that the irregularity was due to weak internal/financial controls.

Audit pointed out the irregularity in September 2015. The Authority replied that the schemes were approved by CAA Executive Committee.

The reply was not tenable because DDWP is the competent forum to approve development schemes upto Rs 60 million whether it was approved by the Board or Executive Committee.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit emphasizes early regularization of the projects from competent forum.

(DP.51)

### **3.4.8 Irregular expenditure in violation of PPRA rules - Rs 59.73 million**

Rule 12(2) of Public Procurement Rules, 2004 provides that, all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspaper having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and other in Urdu.

Audit noted that the Project Director, New Islamabad International Airport awarded five works (Stone pitching & spillways in Mini Dams, Provision of walkthrough gates, supply of machinery, security arrangements, etc.) costing Rs 63.56 million during the year 2014-15.

Audit observed that the Authority declared the development works valuing Rs 2.69 million to Rs 35.66 million as emergency works and awarded on quotation basis without calling open tenders. An expenditure of Rs 59.73 million was incurred. This resulted in irregular expenditure of Rs 59.73 million.

Audit holds that the irregularity was due to weak internal/financial controls.

Audit pointed out the irregularity in November 2015. The Authority replied that Prime Minister of Pakistan gave a deadline of 30<sup>th</sup> March, 2015 for the operation of Airport. To meet this deadline bulk water supply was urgently required to ensure testing and commissioning of various equipment/systems. In order to meet the urgent water requirements of the Project, CAA Board in its 148<sup>th</sup> meeting held on 15<sup>th</sup> April, 2014, invoked the "Emergent Work" clause of PPRA rule for all formalities.

The reply was not tenable because waiver of PPRA Rules was not obtained from the competent forum and works were awarded without

calling tenders. Furthermore, the airport is still not operational despite the expiry of deadline.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit emphasizes fixing of responsibility against persons responsible for violation of Public Procurement Rules.

(Para 25 of AIR NIIAP)

#### **3.4.9 Irregular award of security contract on higher rates - Rs 40.02 million involving overpayment - Rs 6.47 million**

Rule 12(2) of Public Procurements Rules, 2004 provides that all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

Audit noted that Civil Aviation Authority hired services of a private firm for deployment of 98 Armed Guards and Supervisors at JIAP and CAA residential area for the period 1<sup>st</sup> April, 2015 to 31<sup>st</sup> March, 2016 @ Rs 3,335,200 per month.

Audit observed that the said contract was awarded without tendering process. The rates allowed to the agency were also on higher side as compared to the ex-security agency. This resulted in irregular award of contract involving Rs 40.02 million. Audit further observed that CAA was responsible for payment to the agency for services of guards but provision of food charges for guards was also made by the Authority @ Rs 539,000 per month which was unjustified because the Authority had the responsibility of wages of the guards and not for the food charges. Hence, the provision of food charges was not admissible and resulted in an overpayment of Rs 6.47 million.

Audit holds that irregular award of work and overpayment was due to weak financial/internal controls.

Audit pointed out the irregularity in July 2015. The Authority replied that the contract was awarded on emergency basis as per PPRA and food charges were paid after approval of the competent authority.

The reply was not tenable because PPRA rules provides that in case of an emergency the procuring agencies shall specify appropriate fora vested with necessary authority to declare an emergency. In the light of the said rule appropriate fora was not constituted prior to the procurement of services. Further wages for security guards were abnormally high i.e. 25% than the previous agreement. Moreover, food charges for private guards were not admissible as per practice in vogue as evident from other agreements for security services hired by the Authority.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends fixing responsibility against the person(s) responsible and recovery of the overpayment.

(DP.28)

#### **3.4.10 Irregular payment of pensionary benefits - Rs 35.02 million**

Para 48 of CAA Service Regulations, 2014 (Chapter-V), provides that retiring pension may be granted to an employee who opts for his retirement before the age of superannuation after completing 25 years of service or apply for retirement on completion of 20 years of service subject to approval of Director General CAA.

Audit noted that Civil Aviation Authority allowed pensionary benefits to the five employees on account of 100% pension commutation and medical benefits.

Audit observed that the said employees were not eligible for pensionary benefits of retiring pension as their net qualifying service was less than 25 years. This resulted in irregular payment of Rs 35.02 million.

Audit holds that the irregularity was due to weak internal/financial controls.

Audit pointed out the irregularity in September 2015. The Authority replied that the said employees' availed pre-mature retirement from CAA Service after completion of 20 years' service through written request, as they were entitled for pensionary benefits in accordance with CAA Service Regulations, 2014.

The reply was not tenable because the retiring pension was admissible after completion of 25 years qualifying service. Therefore, the rule approved by the CAA Board was in contradiction to the Govt. rules and regulations.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that CAA Service Rules be reviewed in the light of Govt. rules and regulations.

(DP.59)

#### **3.4.11 Irregular payment of Medical Allowance in violation of Govt. rules - Rs 12.48 million**

Finance Division (Regulations Wing) Office Memo No.F.16(1)/Reg.6/2015-698, dated 7<sup>th</sup> July, 2015 provides that all the civil servants in BPS-1 to BPS-15 and BPS-16 to BPS-22, who shall retire on or after 1<sup>st</sup> July, 2011 onwards, shall be allowed Medical Allowance @ 25% and 20% of the net pension respectively and shall stand frozen at the same level.

Audit noted that Civil Aviation Authority paid medical allowance to the pensioners amounting to Rs 12.48 million during the year 2014-15.



Audit observed that the Authority paid medical allowance to the pensioners on gross pension instead of net pension as per Govt. rules. This resulted in irregular payment of Rs 12.48 million.

Audit holds that the irregularity was due to weak internal/financial controls.

Audit pointed out the irregularity in September-October 2015. The Authority replied that said payment was made as per provision laid down in approved CAA Service Regulations, 2014.

The reply was not tenable because payment of medical allowance on the basis of gross pension instead of net pension was not covered under any rule issued by the Finance Division, Government of Pakistan.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends that CAA Service Rules be reviewed in the light of Govt. rules and regulations.

(DP.62,99)

#### **3.4.12 Non-recovery from the contractor - Rs 9.81 million**

Point-13 of Memorandum of Understanding (MoU) executed between Civil Aviation Authority Karachi and M/s Indra Sistemas.S.A, Spain on 2<sup>nd</sup> April, 2014 provides that M/s Indra will clear the remaining consultancy dues amounting to US\$ 98,100 (payable to International Civil Aviation Organization - ICAO) not later than date of start plus 101 days i.e. 12<sup>th</sup> July, 2014.

Audit noted that Civil Aviation Authority awarded a contract for provision of two Primary Surveillance Radars (PSR) and two Mono-pulse Secondary Surveillance Radars (MSSR) to M/s Indra Sistemas. S.A, Spain at an agreed cost of US\$ 9.99 million. The contract agreement was signed

on 22<sup>nd</sup> December, 2014. The work was to be completed within 19 months.

Audit observed that the ICAO's consultancy dues amounting to US\$ 98,100 on account of consultancy services provided for the subject procurements, were not recovered from the contractor as required under MoU dated 12<sup>th</sup> July, 2014. This resulted in non-recovery of dues amounting to US\$ 0.098 million equivalent to Rs 9.81 million.

Audit holds that non-recovery was due to weak internal/financial controls.

Audit pointed out the non-recovery in September 2015. The Authority admitted the recovery. Progress towards recovery was not reported.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends early recovery of dues from the contractor.

(DP.14)

#### **3.4.13 Irregular expenditure on entertainment - Rs 6.65 million**

Rule 10(i,ii&iv) of General Financial Rules (Vol-I) provides that every officer incurring or authorizing expenditure from public funds is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money. The expenditure should not be prima facie more than the occasion demands. Public moneys should not be utilized for the benefit of a particular person or section of the community unless the amount of expenditure involved is insignificant, or a claim for the amount could be enforced in a court of law, or the expenditure is in pursuance of a recognized policy or custom.

Audit noted that CAA made payment of Rs 6.65 million to various suppliers on account of publishing CAA supplement, Decoration, Food Serving, Gifts and different items on the event of 32<sup>nd</sup> CAA's Anniversary during the year 2014-15.

Audit observed that the expenditure was incurred on the Anniversary of the Authority without any actual requirement as it was not such occasion requiring celebrations at a huge cost. Audit further observed that services of the vendors were procured without open bidding. This resulted in irregular expenditure of Rs 6.65 million.

Audit holds that irregularity was due to weak internal/financial controls and non-adherence to the financial propriety.

Audit pointed out the irregularity in September-October 2015. The Authority replied that on 32<sup>nd</sup> Anniversary, a supplement was published and CAA arranged a seminar which was attended by Governor of Sindh, Ex-DG CAAs, Aviation Advisor, CAA Board Members and leading participants from Aviation Industry.

The reply was not tenable because the 32<sup>nd</sup> Anniversary of CAA was not an occasion requiring advertisement in large number of publications, serving costly dinner, gifts etc.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends fixing of responsibility against the person(s) responsible.

(DP.65)

#### **3.4.14 Irregular appointment of Deputy Project Manager - Rs 4.82 million**

According to Para 3.30 of Guidelines for Project Management, issued by Planning Commission, Government of Pakistan in August 2008,

the appointment of project staff under the project should be made through open competition and in transparent manner.

Audit noted that Civil Aviation Authority appointed a Deputy Project Manager in December 2014 on daily wages basis at New Islamabad International Airport with salary of US \$ 8,000 per month.

Audit observed that the post was not advertised and appointment of a favorite person was made. This resulted in irregular appointment and expenditure in violation of the said guide lines involving Rs 4.82 million.

Audit holds that the irregularity was due to weak internal/financial controls.

Audit pointed out the irregularity in November 2015. The Authority replied that Mr. Houn Dong hired initially for 89 days which was subsequently extended upto May, 2015.

The reply was not to the point. The Authority made appointment in violation of rules and regulations.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends investigation and fixing of responsibility against the person(s) at fault.

(Para 46 of AIR - NIIAP)

### **Internal Control Weaknesses**

#### **3.4.15 Non-realization of revenue - Rs 7,450.91 million**

Para 23 of Civil Aviation Authority Order 11-4 provides that it is the personal duty of the Airport Manager concerned to ensure that all the dues are realized from the licensees as soon as they become due and report the reasons for non-realization of the dues or non-utilization of the space.

Audit noted that Civil Aviation Authority raised bills against various Airlines, lessees and concessionaires working at airports during the year 2014-15 on account of aeronautical and non-aeronautical charges.

Audit observed that the Authority could not realize the outstanding dues from the licensees, lessees and airlines working at different locations. This resulted in non-realization of revenue of Rs 7,450.91 million.

**(Rs in million)**

<b>S. No.</b>	<b>Para No.</b>	<b>Location</b>	<b>Amount</b>
1.	92	HQCAA Karachi (Aeronautical)	7,193.80
2.	38	JIAP Karachi (Non-Aeronautical)	64.39
3.	130	BKIAP Peshawar (Non-Aeronautical)	80.64
4.	98	HQCAA (Aeronautical Surcharge)	48.79
5.	116	QIAP Quetta (Non-Aeronautical)	42.49
6.	144	MIAP Multan (Non-Aeronautical)	20.80
<b>Total</b>			<b>7,450.91</b>

Audit holds that non-realization of revenue was due to weak internal/financial controls.

Audit pointed out the non-realization of revenue in July, August and October, 2015. The Authority replied that major portion of the outstanding dues pertains to PIAC. CAA has already taken up the matter with PIAC in consultation with Aviation Division. Recovery from US Air Force, Embassies, NATO Coalition Aircraft and others has also been taken up at highest level.

The reply was not tenable because a huge amount of revenue for the year was not realized which could badly effect Authority's financial position in meeting the development needs of the airports/infrastructure.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit emphasizes early realization of revenue and action against the responsible(s).

(DP. 38, 92, 130, 98, 116, 144)

#### **3.4.16 Undue financial assistance to the contractor due to provisional payments - Rs 3,228.00 million**

According to Para-VI of Minutes of Pre-Bid Meeting held on 18<sup>th</sup> March, 2010, the contractor proposed for release of 75% ad-hoc payment against running bills and it was decided that necessary provision for payment of mobilization advance etc. has already been made; no changes in payment procedure are acceptable. All running payments shall be made as per provision made in the bidding/contract documents.

Audit noted that CAA awarded a work “Landside Roads, Bridges, Drainage and Utilities H (package-8A) at New Islamabad International Airport” to M/s Lagan-Tech Associate and Habib Construction (JV) for Rs 6,852.51 million.

Audit observed that the Authority made provisional payments to the contractor from time to time in different IPCs and also recovered simultaneously involving Rs 3,228.00 million, whereas, the request of provisional payment was already rejected in pre-bid meeting. This resulted in undue financial assistance to the contractor.

Audit pointed out the irregularity in November 2015. The Authority replied that a meeting was held between Chairman of M/s LTH (JV) and DG CAA on 09<sup>th</sup> September, 2011, in which it was decided that payment of Interim Payment Certificates (IPC) may be made within 20 days of their submission or else ad-hoc payments may be authorized against work executed and measured by the Engineer. The PMC/the Engineer recommended the 80% payment against the measured work for the purpose to meet their current cash flow difficulties and in the best interest of the Project.

The reply was not tenable because the meeting of chairman with DGCAA was not part of the agreement as well as financial rules. Hence, the part payments stand irregular and undue financial assistance to the contractor.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends investigation and fixing of responsibility against the person(s) responsible.

(Para 6 of AIR NIAP)

#### **3.4.17 Loss to the Authority due to improper planning - Rs 1,555.82 million**

PC-I of New Islamabad International Airport was prepared by the Consultant and approved by the CAA Board in February, 2008 contained provision of Passenger Terminal Building with covered area of 180,000 square meter, 3/4 level facility with 15 passenger gates at estimated cost of Rs 82,000 per square meter.

Audit noted that building's covered area was reduced to 165,000 square meters with nine (9) passenger gates during pre-bid meeting in June, 2010. Audit further noted that the work was put to tender in March, 2011 and awarded to M/s China State Construction Engineering Corporation - FWO (J/V) at the cost of Rs 20,286.04 million (the per square meter cost comes to Rs 122,945.70).

Audit observed that in 2014, the quantity of gates was enhanced to fifteen (15) in conformity with the original approved PC-I. A review of IPC-I of additional work indicated that contract amount was commuted for Rs 3,400.00 million on the area of 15,000 square meters. In this way, per square meter cost comes to Rs 226,666 for additional work. Audit is of the view that the curtailment in the original approved area prior to tendering and then subsequent enhancement through variation order at this belated stage caused huge extra cost of Rs 1,555.82 million. Had the tendering

would have been carried out in conformity with the original approved PC-I, this extra cost could have been avoided.

Audit holds that the extra cost was due to weak internal/financial controls.

Audit pointed out that the extra cost in November 2015. The Authority replied that CAA Board in its progress meeting held on 14<sup>th</sup> June 2010 decided to curtail the size of the Terminal Building and reduce the number of Passenger Boarding Bridges from 15 to 09.

The reply was not tenable because the scope of work reduced in pre bid meeting and later on the reduced scope of work enhanced to original scope of work, which caused extra cost to the Authority.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends investigation and fixing of responsibility against the person(s) responsible.

(Para 2 of AIR -NIIAP)

### **3.4.18 Undue financial assistance to the contractor - Rs 1,504.40 million**

Clause 60.1 (General Condition of Contract Part-I) provides the provision of payment to the contractor for the percentage of the invoice value of listed materials, delivered by the contractor on the site for incorporation in the permanent works but not incorporated in such works. In part-II Particular Condition of Contract said provision was deleted and replaced with the sub-clause 60.11 (A) regarding financial assistance to the contractor in the shape of 15% Mobilization Advance only.

**3.4.18.1** Audit noted during review of the Interim Payment Certificates that Project Director New Islamabad International Airport Project, CAA paid secured advance of Rs 193.30 million to the contractor of Package-III



(Passenger Terminal Building) through IPC-4 which was subsequently shown adjusted in IPC-13. In IPC-18 an amount of Rs 226.60 million was added on account of part payment against equipment/material at site and subsequently in each IPC payment was also allowed on this account. A sum of Rs 1,435.78 million was paid up to IPC-31 (billing month June 2015).

Audit holds that as per contract provision only one type of financial assistance i.e. mobilization advance, was admissible and accordingly Rs 3,042 million was paid on account of mobilization advance therefore, grant of secured advance in the shape of part payment on equipment/material at site was undue financial aid/assistance to the contractor outside the contract which was not admissible. Grant of financial assistance rendered the contractor to be charged with financing charges but the same was not done. Non-adherence to contract provisions caused undue financial aid at the cost of Authority's financial resources for Rs 1,435.78 million.

Audit holds that undue financial aid was given to the contractor due to weak internal controls.

Audit pointed out the irregularity in November 2015. The Authority replied that in a meeting held on 10<sup>th</sup>-12<sup>th</sup> December 2012, chaired by Director General CAA, President China State Construction Engineering Corporation (CSCEC) requested CAA that large quantities of materials and equipment would be ordered soon. This would involve heavy cash outlay and any financial constraints may delay the project execution and completion. DGCAA decided to pay 70% of the BOQ price on delivery of the material and equipment.

The reply was not tenable because supply of material was the responsibility of contractor and as per contract, only one financial assistance to contractor was to be granted.

(Para 3 of AIR-NIAP)

**3.4.18.2** Audit noted that Civil Aviation Authority paid part payment against equipment/material at site for Package-III Passenger Terminal Building (Extended Work) of New Islamabad International Airport amounting to Rs 68.62 million.

Audit observed that as per contract provisions, only one financial assistance on account of mobilization advance was admissible, therefore, grant of secured advance in shape of part payment was an attempt to grant undue financial assistance to the contractor. Non-adherence to contract caused undue financial assistance to the contractor at the cost of Authority for Rs 68.62 million which may be recovered along with prevalent Financing Charges.

Audit pointed out the irregularity in November 2015. The Authority replied that a meeting was held on 2<sup>nd</sup> June, 2014 wherein, it was decided that in order to boost the progress at site, PMC shall release 75% part payment of the invoices provided by the Contractor for the equipment that have arrived at site after satisfactory completion of all Contractual requirements.

The Authority admitted that 75% part payment released against invoices without provision of clause for secured advance. The matter needs investigation at higher level as undue financial assistance was granted to the contractor.

(Para 23 of AIR NIAP)

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends investigation in the matter and fixing responsibility against the person(s) at fault.

### **3.4.19 Loss due to acceptance of higher bid - Rs 1,379.68 million**

Clause 73.1 of Appendices and Addendum No.01 to 06, Vol-II, Package-03 provides that, the contractor shall exclude from its prices all

Pakistani Customs and Import Duties on the materials and supplies which intends to import and are stated payable as Foreign Currency Component for the sole purpose of executing the Contract and incorporation in the permanent work.

Further, rate analysis of the items for the work of Passenger Terminal Building (New Islamabad International Airport) includes the cost of imported material in US\$, cost of duties taxes livable on imported items, 50% and 45% of the cost was added on account of overhead/profit, I.T preliminaries.

Audit noted that tenders for the above work were invited in March, 2011, wherein, three firms participated and M/s China State Engineer Construction - FWO (JV) with its bid price of Rs 20,286.04 million evaluated as first lowest which was 7.34% above the Engineer's estimate. The work was awarded to the firm by declaring the bid within acceptable limit of 15% as compared to the Engineer's Estimate.

Audit observed that Engineer Estimate's rates contained the cost of duties on imported items whereas bidders were asked through pre bid addendum No.04 that custom import duty, Sales tax, Excise Duties of any nature shall be reimbursed to the contractor on actual basis. This state of affair indicates that contractor had not quoted the cost of import duties and taxes in their bid rates. Therefore, comparative statement prepared by determining the lowest bid 7.34% above Engineer's Estimate was not in order and acceptance of bid cannot be termed within acceptable limit of 15%. Audit is of the view that if the component of import duties/taxes included in the bid rates than the awarded cost would be 23.39% above the estimated cost. Audit further observed that an amount of Rs 1,184.53 million was reimbursed to the contractor on account of duties and taxes. This resulted in a loss due acceptance of bid at higher than permissible limit for Rs 1,379.68 million.

Audit holds that acceptance of higher bid was due to weak internal/financial controls.

Audit pointed out the loss in November 2015. The Authority replied that the CAA Board approved the award of contract.

The Authority submitted interim reply. The matter needs investigation.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends investigation and fixing of responsibility against the person(s) responsible for the loss.

(Para 04 of AIR - NIIAP)

### **3.4.20 Non-imposition of liquidated damages due to non-completion of work within stipulated period - Rs 799.22 million**

Clause 47.1 (General Condition of Contract, Part-I and Part-II), states that if the contractor fails to comply with the time for completion in accordance with Clause 48, for the whole of the works or, if applicable, any section within the relevant time prescribed. The rate of liquidated damages shall be 0.05% of the contract price stated in Letter of Acceptance for every day of delay in which whole or part of the works remained unfinished subject to a maximum of 5% of the contract price stated in Letter of Acceptance.

Audit noted that the work “Passenger Terminal Building” (New Islamabad International Airport Project) was awarded to M/s China State-FWO JV with date of commencement of 8<sup>th</sup> June, 2011 with original date of completion 26<sup>th</sup> August, 2013. The contractor failed to complete the work within time for completion and no extension of time was granted despite expiry of 27 months over the completion period. As the delay in completion was attributable to the contractor therefore, liquidated damages were required to be levied but no such action was taken. However, an amount of Rs 97.41 million was shown withheld upto IPC-31 on account of slow progress under Clause 47.3 regarding advance liquidated damages. Audit holds that CAA invoked Clause 47.3 in

February 2015 which was applicable soon after completion of original stipulated period in August 2013. Twenty seven months (810 days) has elapsed since August 2013. Liquidated damages were required to be charged under Clause 47.1 instead of 47.3. Non-adherence to contract caused non-imposition of liquidated damages equal to 5% of the balance value of work to Rs 799.22 million.

Audit holds that non-imposition of liquidated damages was due to weak internal controls.

Audit pointed out the irregularity in November 2015. The Authority replied that work is still under execution due to enhanced scope of works of Extension in Passenger Terminal Building. However, since it is an ongoing work Interim Liquidated Damages have been imposed and matter of Liquidated Damages will be considered in the light of contractual provisions on completion of works in accordance with the recommendation of the Project Management Consultant / Engineer.

The Authority promised to impose the liquidated damages in the light of contractual provision on completion of work.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends imposition of liquidated damages and its recovery from the contractor.

(Para 9 of AIR-NIAP)

#### **3.4.21 Loss due to mismanagement - Rs 774.55 million**

Para D-3.2.3 of Policy and Procedure for grant of business license at CAA Airports provides that reserve price of existing concessions shall be calculated after adding 5% over and above the current year's/last license fee.

Audit noted that Civil Aviation Authority granted license for collection of cargo throughput charges at Jinnah International Airport Karachi on 28<sup>th</sup> August, 2013 @ Rs 42,000,000 per month to a licensee for a period of five years with cumulative enhancement @ 10% annually.

Audit further noted that previously the said concession was awarded for a period of four years @ Rs 25,942,050 per month with annual enhancement @ 15% (the last year's license fee comes to Rs 39,942,050 per month). After expiry, the license was twice extended by the DGCAA for a period of 15 days each with 10% enhancement in existing license fee @ Rs 43,400,076 per month.

Audit observed that at the time of tendering, the reserve price was fixed as Rs 41,428,000 which was 5% above the license fee of Rs 39,942,050 instead of Rs 45,570,079 (5% above Rs 43,400,076). Audit holds that less reserved price put to NIT resulted in a loss of Rs 774.55 million.

Audit holds that the loss was due to mismanagement and non-adherence to the prescribed rules & regulations and financial controls.

Audit pointed out the loss in July, 2015. The Authority replied that tenders for the concession were already invited after 5% enhancement in the existing license fee as per policy. Since the tender proceedings were not finalized in time therefore extension was granted to the sitting licensee with 10% escalation to avoid any revenue loss.

The reply was not tenable because the reserve price was required to be fixed by adding 5% over the last license fee, which was not done in this case and Authority was put to a huge revenue loss.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends investigation and fixing of responsibility against the person(s) at fault.

(DP.20)

**3.4.22 Recurring loss due to unauthorized possession of land -  
Rs 199.36 million**

According to introduction to CAA Land Lease Policy, the policy was formulated in 1985 under the provision of PCAA Ordinance 1982, whereby approval of the Ministry of Defence was compulsory for all leases. As per Para D.5 & D.6 of CAA Land Lease Policy, for award of land on 30 year lease basis, Premium @ 30% of the land value and Annual Ground Rent @ 1/30<sup>th</sup> of the land per year was admissible. The Annual Ground Rent was required to be enhanced 100% after expiry of each ten (10) year term.

Audit noted that Civil Aviation Authority sold Fuel Hydrant System at Jinnah International Airport Karachi consortium of three oil companies i.e. M/s Shell, M/s Caltex and M/s PSO through interim sale agreement. The system was handed over to the oil companies on 20<sup>th</sup> May, 1992 alongwith an area of land measuring 1,514.72 sq yds @ Rs 450 per sq. yds.

Audit observed that an additional area measuring 23,890.37 sq. yds was also occupied by the said companies since 1979 without legal allotment and payment of any space charges to the authority. This resulted in a recurring loss of Rs 199.36 million.

Audit holds that the loss was due to slackness on the part of management as well as inadequate mechanism of administrative, financial and internal controls.

Audit pointed out the loss in July 2015. The Authority replied that the consortium has already been made payments on monthly basis @ Rs 453,719. The execution of lease agreement for the said land is under process.

The reply was not tenable because the recovery on monthly basis as provided in the reply was for current period, whereas, no recovery was made for the previous period.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends early recovery of rent and premium for previous period and execution of lease agreement.

(DP.18)

### **3.4.23 Loss to Authority due to cancellation of plot - Rs 173.70 million**

Para-2 of terms & conditions of allotment letter of plot of Peshawar Development Authority (PDA) provides that the allottee/ individuals shall submit a building plan for approval to the PDA in respect of the plot within 6 months of the taking over of the possession of the plot. The allottee shall also be required to start constructing the building within 09 months after taking possession. If the individual/institution fails to submit the plan or fails to start construction within the specified time the allotment shall be cancelled, the amount paid shall be forfeited and that the allottee shall have no right of objection.

Audit noted that a plot measuring 17.379 kanal was allotted to Civil Aviation Authority by Peshawar Development Authority for establishment of school in Peshawar on 24<sup>th</sup> September, 1986. The physical possession of the said plot was handed over to CAA on 11<sup>th</sup> December, 1994. Audit further noted that the Housing Officer, City Development and Municipal Department issued many notices to CAA management for getting approval of the building plan for the construction and start of physical work.

Audit observed that despite a lapse of 20 years, CAA failed to start the physical work at site. The Deputy Director Estate Management of City Development and Municipal Department ordered for cancellation of said school plot on 29<sup>th</sup> July 2006. Audit further observed that according to CAA register of acquired lands the present value of said land was Rs 80.00 million per acre (approximately). This resulted in a loss to authority of Rs 173.70 million.



Audit holds that the irregularity was due to weak internal/financial controls.

Audit pointed loss in November 2015. The Authority replied that due to mega projects in progress, establishment of colony and school could not be sorted. Further replied that PDA had just ordered for cancellation of the said plot whereas possession of same is still with CAA and challenged the cancellation orders in the Court of Law.

The reply was not tenable because a period of almost 30 years has elapsed but the Authority could not take serious steps for establishment of school and PDA cancelled the plot.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends holding of inquiry and fixing of responsibility against the person(s) at fault.

(DP.137)

**3.4.24 Non-recovery of consultant supervisory cost incurred on construction supervision of work beyond stipulated period - Rs 159.84 million**

As per Clause 46.1 of the contract agreement, if for any reason, which does not entitle the contractor to an extension of time the rate of progress of the works or any Section is at any time too slow the Engineer shall notify the contractor to take action to expedite the progress. If in this case, additional supervision costs is involved, such costs shall, after due consultation with the Employer and the Contractor, be determined by the Engineer and shall be recoverable from the contractor by the employer, and may be deducted by the Employer from any moneys due or to become due to the Contractor and the Engineer shall notify the Contractor accordingly.

Clause 60.2 provides that minimum amount of interim payment certificates during first six months will be Rs 200 million and subsequently Rs 400 million.

Audit noted during review of the accounts record of the construction of Passenger Terminal Building (New Islamabad International Airport Project) that first IPC was submitted by contractor in June 2012 on expiry of nine months over the commencement of work which was October 2011 for Rs 376.03 million against the stipulated value of work done of Rs 2,400 million. IPC-2 was submitted in July 2012 for Rs 61.77 million which was rejected by the consultant as it was lesser than the minimum amount of Rs 400 million. The contractor again submitted IPC-2 in January 2013 covering the period of July 2012 to December 2012 including value work done of Rs 571.28 million against the stipulated value of work done of Rs 2,400 million. A review of the summary of the IPCs indicated that contractor submitted 31 IPCs up to June 2015 out of which 15 IPCs contained the value of work less than Rs 400 million. This state of affairs indicated that contractor executed the work at slow pace due to which it remained incomplete in stipulated period of 27 months (commencement date 8<sup>th</sup> June 2011 and completion date of 25<sup>th</sup> August 2015 and now 27 months further elapsed and progress of work is stated to be achieved 80%. This inordinate delay caused huge extra cost on account of price adjustment supervision cost and exchange rate difference dollar cost delay in other packages i.e. 4, 5 and 8B of the project. Audit holds that Authority processed the IPCs having financial value below the minimum limit in contravention of the contractual provisions and thus extended undue financial aid to the contractor to increase his cash flow for catching up the progress but in return the contractor failed to fulfill the contractual obligations. Therefore, the contractor rendered himself to be charged extra cost on consultancy of Rs 159.84 million. Value of work done upto August 2013 was Rs 4,302.08 million. Total contract cost to be completed upto August 2013 was Rs 20,286.49 million. The cost of balance work yet to be executed is Rs 15,984.42 million. Supervision charges during un-approved extended period came to Rs 159.84 million.

Audit pointed out the irregularity in November 2015. The Authority replied that the contractor submitted an Interim Extension of Time request in July 2013 which has not been finalized by the Engineer. It was submitted that cases for Extension in Time are under process with Project Management Consultant/Engineer and any recoveries would be considered in the light of contractual provisions on completion of works in accordance with the recommendation of the Project Management Consultant / Engineer.

The Authority conceded to make recovery according to contractual provision and fact remained that any financial implication caused by delay in completion of contract at the part of contractor shall be borne by the contractor.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends early recovery.

(Para 14 of AIR-NIAP)

#### **3.4.25 Overpayment due to non-adherence to contract and non-application of favourable exchange rate in unapproved extended period - Rs 129.57 million**

Clause 72.2 of Contract Agreement (Vol-I), provides that the amount of bid price as well as that of certificate (Interim/Final Payment Certificate) shall be expressed and paid in Pak currency (Rupees). However, for the actual payment of dollar portion of those BOQ items containing dollar component, the rate of exchange for conversion will be that prevailing 28 days before the submission of that particular certificate.

Clause of the 70.1 (e) (Adjustment after completion), if the contractor fails to complete the works within the time for completion prescribed under Clause 43, adjustment of prices thereafter until the date of completion of the works shall be made using either the indices or prices relating to the prescribed time for completion, or the current indices or

prices, whichever is more favourable to the Employer, provided that if an extension of time is granted pursuant to Clause 44, the above provision shall apply only to adjustment made after the expiry of such extension of time.

Audit noted that the work “Passenger Terminal Building Package-III” (New Islamabad International Airport Project) was awarded to M/s China State-FWO JV with date of commencement of 8<sup>th</sup> August 2011 with original date of completion 26<sup>th</sup> August 2013. The contractor failed to complete the work within time for completion and no extension of time is granted despite expiry of 27 months over the completion period. As the delay in completion was attributable to the contractor therefore the employer invoked the afore-quoted clause by freezing the current prices favourable to the employer for making payment of price adjustment. Audit holds that this analogy, current rate of foreign exchange conversion was also required to be frozen on the rate favourable to the employer after due date of completion as contractor is gaining exchange rate and employer is sustaining exchange rate loss due to default of the contractor as the lowest rate of Rs 96.30 for 01 US\$ was prevalent in April & May, 2014. Therefore, it was required to be frozen on said date as it was most favourable to the employer. Non-adherence to contract and non-application of favourable exchange rate resulted in an overpayment of Rs 129.57 million.

Audit holds that overpayment was made due to weak internal controls.

Audit pointed out the overpayment in November 2015. The Authority replied that due to change in the scope of works, the work was not completed by the contractor. The Engineer froze the rates of price adjustment in September 2013 at Rs 103.30 for 01 US\$ accordingly. After IPC-11 Foreign Exchange Conversion is being made at the current rate or at the frozen rates i.e. Rs 103.30 which is favourable to the Employer. Contractor has already requested for Extension of Time which is under consideration with Project Management Consultant/the Engineer.

The reply was not tenable because rate was frozen in September 2013 @ Rs 103.30 for 01 US \$ instead of most favourable rate was prevalent in May 2014 which was Rs 96.30 for 01 US\$ was required to be applied.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends a probe into the matter and action against persons responsible besides recovery.

(Para 17 of AIR-NIAP)

### **3.4.26 Excess expenditure due to change in specification - Rs 137.72 million**

According to General Financial Rule-10 (i), every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of expenditure of his own money. The expenditure should not be prima facie more than the occasion demands.

Audit noted that a work of Airfield Lighting System (Package-7A) at New Islamabad International Airport was awarded to a contractor on 5<sup>th</sup> June, 2009 for Rs 946.77 million.

Audit observed that the Project Director approved variation order and changed the specification of original item “Conventional Halogen Lights” in to “LED based technology” and enhanced the rates upto 100%. This resulted in excess expenditure of Rs 137.72 million (Rs 1.74 million and US \$ 1,359,795).

Audit holds that excess expenditure was due to weak technical, financial and internal controls.

Audit pointed out the excess expenditure in November 2015. The Authority replied that the LED Lights were substituted being the updated

technology and more energy efficient than the Conventional Halogen Lights.

The reply was not tenable because post-bid change in specification resulted in huge excess expenditure which was against the canons of financial propriety.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends holding of inquiry and fixing of responsibility against the person(s) at fault.

(Para 16 of AIR - NIIAP)

#### **3.4.27 Non-recovery of preliminaries cost in-built in the item rate - Rs 115.67 million**

As per Special Provision 1.2.2 of agreement of Passenger Terminal Building New Islamabad International Airport, following preliminaries were required to be constructed by the contractor:

- An office block of 2400 square meter (Approx.) with all the furnishing and facility of video conferencing/multimedia.
- Addition fascia 2700 square meter (Approx.) as per details given in the drawing.
- General Engineering Depot North GED(North) with 2300 square meter of covered area along with 1700 square meter of hard standing.
- Logistics Centre (North), on area of 1200 square meter alongwith 1000 square meter hard standing.
- Two Prayer areas for 50 persons in each area.

Audit noted that the cost of these facilities was added in the rate analysis of items @ 20% in the Engineer's Estimate and accordingly

contractor included said cost in his bid price. Audit further noted that the office block was required to be constructed within the first 3 months whereas the remaining construction required to be completed within the next six months.

Audit observed during review of the record and discussions held with the Project Management that only facility of Office Block without video conferencing and multimedia was provided to the Engineer whereas, no action towards provision of other facilities was taken by the contractor. As per contract, work was started in June, 2011 and was to be completed in August, 2013 within 27 months period and now further 27 months have passed, these facilities were not provided to the Engineer/Employer. Despite of the facts the Authority could not recover the cost of these preliminaries from the contractor amounting to Rs 115.67 million.

Audit holds that non-recovery was due to weak financial/ internal controls.

Audit pointed out the non-recovery in November 2015. The Authority replied that penalty of Rs 100,000 for each default per month has already been imposed on the contractor. However, these facilities were essentially required by CAA and are under process.

The reply was not tenable because major construction of the airport has been done, whereas no construction of such preliminaries has been started by the contractor.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends early recovery and fixing of responsibility against the person(s) at fault.

(Para 19 of AIR - NIAP)

### **3.4.28 Seizure of huge quantity of foreign currency and gold - Rs 93.20 million**

According to clause-11 of license agreement, the licensee shall not use the premises or any part thereof for any purpose other than that for which the licence has been granted nor shall the licensee carry-on any activity or business in the premises outside the scope of the licence awarded to him.

Audit noted that, Assistant Collector Custom (Traffic) Airport Lahore informed to the Airport Manager, CAA Lahore on 21<sup>st</sup> May, 2015 regarding smuggling of foreign currency and gold amounting to Rs 93.20 million. As per report on electronic media on 30<sup>th</sup> May, 2015 the accused smuggler admitted smuggling of currency and gold provided by a concessionaire at Lahore Airport.

Audit observed that the said Concessionaire was operating six concessions on different locations at Lahore Airport. The documents placed in the files of those concessions i.e. ID Card etc., clearly showed that the concessionaire was the same person pointed out in the media report. Audit further observed that besides FIR Civil Aviation Authority did not take serious action against the matter towards cancellation of all the concession's agreements of the licensee who used the CAA shops for unlawful activities.

Audit holds that the irregularity was due to weak financial / internal controls.

Audit pointed out the issue in July 2015. The Authority replied that investigation of such a matter falls outside the jurisdiction of CAA. However, an FIR was registered by the Authorities empowered in this regard.

The reply was not tenable because according to Media Footage and explanation it was clear that the accused Concessionaire was involved in smuggling and used the shops at Lahore Airport for unlawful activities.



The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends investigation of the matter and fixing of responsibility against the person(s) at fault.

(DP.10)

#### **3.4.29 Recurring loss due to non-recovery of space charges - Rs 50.12 million**

According to para D3 14.3 &14.6 of policy and procedure for business license there are a number of business concessions which require licenses to operate their business/concession and provide services on open land/spaces by establishing their own infrastructure. Such concessions includes Banks, Cargo sheds/services, Courier Services, Aviation related concessions like Airlines and Ground Handling Agents. Open lands/spaces allotted to above entities through competition (open tenders) are to be charged over and above CAA prescribed space charges and allotment shall be made by the approving authority.

Audit noted that Civil Aviation Authority's land measuring 7,680 sft in Cargo complex at BBIAP Islamabad was occupied by the United Nations High Commission for Refugees (UNHCR) since 2009.

Audit observed that M/s UNHCR occupied the said space without any legal allotment and payment of any space charges. This resulted in unauthorized possession of land and a recurring loss of Rs 50.12 million.

Audit holds that the loss was due to weak financial/ internal controls.

Audit pointed out the loss in October-November 2015. The Authority replied that the matter was taken up for legitimate solution at HQCAA/Aviation Division and Ministry concerned i.e. Ministry of States and Frontier Regions.

Progress towards recovery and regularization of unauthorized possession was not provided to Audit till the finalization of this Audit Report.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends early recovery from the concerned.

(DP.175)

### **3.4.30 Loss due to award of land on license basis instead of lease - Rs 35.83 million**

Clause-14 of license agreement denotes that the Licensee shall not raise any permanent structure or alter the said premises or make any addition or alteration to the electrical circuits, gas or water connections without previous permission in writing of the Airport Manager. As per para D.5 & D.6 of CAA Land Lease Policy for award of land on 30 year lease basis, Premium @ 30% of the land value and Annual Ground Rent @ 1/30<sup>th</sup> of the land per year was admissible. The Annual Ground Rent shall be enhanced 100% after expiry of each ten (10) year term.

Audit noted that Civil Aviation Authority allotted land measuring 57,372.21 sft (6,374 sq. yds) to M/s Edulearn Air Service Academy for establishment of Ground Training School at Jinnah International Airport, Karachi on license basis for a period of five years with effect from 2<sup>nd</sup> September 2014 to 1<sup>st</sup> September 2019 @ Rs 323,005 per month with 10% annual enhancement.

Audit observed that the licensee intends to establish Ground Training School on CAA land for long term basis and to construct multi story building of ground plus five, whereas, license agreement prohibit construction of permanent structure. In this situation the land should have been allotted on long term lease basis @ 20,000 per square yard. This resulted in a recurring revenue loss of Rs 35.83 million for 1<sup>st</sup> five years.

Audit holds that loss was due to mismanagement and weak internal/financial controls.

Audit pointed out loss in July 2015. The Authority replied that the under reference clause of agreement does not restrict any Licensee to create permanent structure if the permissions granted by CAA for the said purpose.

The reply was not tenable because as per CAA policy, the license agreements were meant for shorter period of time whereas, lease agreements were for longer period. In this case it is very clear that the licensee intends to construct a multi-storey building for their academy therefore the land was required to be leased out instead of award on license basis. The only purpose of award on license basis seems to accommodate the licensee at low cost.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends investigation into the matter and fixing of responsibility against the person(s) at fault.

(DP.26)

#### **3.4.31 Overpayment on account of engineer's/employer's facilities - Rs 23.50 million**

Agreement of the work Protection Works at New Gwadar International Airport executed with M/s Frontier Works Organization (FWO) for Rs 680.00 million is inclusive of providing and maintaining Engineer/Employee's facilities for the entire contract duration.

Audit noted that Civil Aviation Authority awarded contract for Site Protection Works at New Gwadar International Airport to M/s Frontier Works Organization (FWO) for Rs 680.00 million (inclusive of providing

and maintaining Engineer's/Employee's facilities for the entire contract duration).

Audit observed that an amount of Rs 23.50 million was paid to the contractor against engineer's/employer's facilities separately against the agreed provisions. This resulted in an overpayment of Rs 23.50 million.

Audit holds that due to non-adherence to the contractual obligations separate payment was made to the contractor.

Audit pointed out the overpayment in August 2015. The Authority replied that the matter is being referred to consultants to verify the factual position.

The Authority made interim reply while the matter was very clear and the payment made against bid amount was not covered under agreement.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends early recovery from the contractor.

(DP.41)

#### **3.4.32 Non-recovery of rent from a private concern - Rs 23.12 million**

According to para D3 14.3 &14.6 of policy and procedure for business license there are a number of business concessions which require licenses to operate their business/concession and provide services on open land/spaces by establishing their own infrastructure. Such concessions includes Banks, Cargo sheds/services, Courier Services, Aviation related concessions like Airlines and Ground Handling Agents. Open lands/spaces allotted to above entities through competition (open tenders) are to be charged over and above CAA prescribed space charges and allotment shall be made by the approving authority.

Audit noted that Civil Aviation Authority is a commercial concern which provides air traffic services to domestic and international airlines and earns revenue for these services.

Audit observed that there was a private VVIP lounge i.e. Royal Lounge within the premises of the Bahawalpur airport. The building was under control of a private party since 2006. There was no agreement executed between CAA and the Royal Lounge administrators and no payment for utilization of the building was made by them to CAA. Audit is of the view that there should have been a contract agreement or lease agreement as with the other commercial concerns on the airport within or outside the terminal building. This resulted in a recurring loss of Rs 23.12 million.

Audit holds that loss was due to weak internal/financial controls.

Audit pointed out the loss in October 2015. The Authority replied that the present Royal Lounge was constructed by M/s TAPL themselves and they are paying all kind of utility charges to Civil Aviation Authority since the establishment of Royal Lounge. Further, the said building is not in use for any type of commercial activity except for VIP/VVIP movements.

The reply was not tenable because the said lounge was constructed on CAA's land, therefore, the space charges for the said land were also required to be recovered from the user.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit emphasizes recovery of space charges from the user and execution of license agreement.

(DP.169)

### **3.4.33 Wasteful expenditure on purchase of spares - Rs 22.74 million**

Rule 10 of General Financial Rules (Vol.-I) provides that every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money. The expenditure should not be prima facie more than the occasion demands.

Audit noted that the Logistics Center (South Karachi and North Rawalpindi) of Civil Aviation Authority procure material for operational requirements of the locations.

Audit observed that that some items/spares were procured without estimation of actual demand and the same could not be issued to the end users. Their balance was lying unused up till 2015 since years valuing Rs 13.14 million and Rs 9.60 million, respectively at Karachi and Rawalpindi. This resulted in wasteful expenditure of Rs 22.74 million.

Audit pointed out the wasteful expenditure in October 2015. The Authority replied that the core functions of Logistics Centre are to provide spares/logistics support to all the locations/airports. Since CAA is operating on systems which are more than 10 to 15 years, therefore, keeping of their spare parts is mandatory.

The Authority did not address the audit observation properly. The subject items/spares were lying unutilized for more than 10 to 15 years. Probably, the items in questions had lost their capacity/strength of matching to their parental machinery.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit emphasizes inquiry and fixing of responsibility against the person(s) at fault, besides improving internal controls.

(DP.81,89)

### **3.4.34 Loss due to mis-management - Rs 12.13 million**

According to para-5 of Land Lease Policy-2001, comprehensive review of the Land Lease Policy was carried out to remove the irritants and to soften the rigid components without compromising the CAA's interest with a view to make the policy more attractive/ investor friendly.

Audit noted that Civil Aviation Authority awarded land measuring 2000 sq. yds for establishment of CNG cum Filling Station at Airport Link Road Rawalpindi to M/s Cheema and Sons. The possession of the land was handed over to the lessee on 16<sup>th</sup> July 2010, which was reckoned as 27<sup>th</sup> March 2012 due to request made by the lessee for removal of two poles and the high tension wires from the site. Audit further noted that CAA could not provide clear land to the lessee and could not remove the installations; due to such delay the lessee approached the Court against CAA. The honourable Court directed both the parties to solve the issue under clause-10 of the agreement through Arbitrator. The Arbitrator decided the following:-

- a) The lessee will make all-out effort for removal of the poles from the site till 16<sup>th</sup> January, 2015.
- b) The earlier handing/taking over of the site with the lessee does not hold any ground and has no effect forthwith. Because it was CAA, who have to give the site freedom all encumbrances. Though CAA made legitimate effort to get the job done through IESCO, but could not succeed in the same. However, CAA should have made extra efforts for removal of the poles.
- c) New handing /taking over of the possession of the site would be w.e.f. 16<sup>th</sup> January, 2015 and CAA will charge premium and AGR as per policy in any case i.e. whether the lessee is able to remove the electric poles or otherwise as agreed by the party.

Audit observed that there was mismanagement on the part of CAA that they could not provide the clear land to the lessee. Further, an additional expenditure of Rs 212,933 was required to be paid to IESCO

for removal of the poles which was not paid by the authority and resulted in a huge loss of Rs 12.13 million due to changing in the dates of handing/taking over.

Audit holds that loss was due to weak internal/financial controls.

Audit pointed out the loss in November, 2015. The Authority replied that the lessee filed writ petition before Lahore High Court, Rawalpindi Bench for removal of two electric poles. CAA made hectic efforts with quarters concerned but the matter could not be resolved due to excessive amount, demanded by IESCO. The petition was dismissed on remedial ground of arbitration.

The reply was not tenable as the arbitration and court case proceeding were the subsequent action/result of immature and faulty auction of land. Audit recommends holding of an inquiry for delay in clearance of site.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends fixing of responsibility against the person(s) at fault.

(DP.154)

#### **3.4.35 Overpayment due to non-application of rebate of additional items of works - Rs 11.89 million**

Clause 52.1 of Contract Agreement (Vol-I), states that all variations referred to in Clause 51 and any additions to the Contract price which are required to be determined in accordance with Clause 52 shall be valued at the rates and prices set out in the contract.

Audit noted that tenders for the work “Passenger Terminal Building Package-III” (New Islamabad International Airport Project) were invited with NIT cost of Rs 18,899.69 million. Three bidders participated



in the bidding wherein M/s China State-FWO JV stood lowest at his bid cost of Rs 20,286.04 million after allowing 7.26% rebate on his quoted bid of Rs 21,874.10 million. This indicated that rate set out in the contract after application of the rebate and bid was evaluated / approved on said terms, therefore, any determination of rate of varied work was to be made after application of rebate. A review of the IPC-31 indicated that additional items of work were measured and got executed wherein full rate was allowed instead of application of rebate which caused overpayment to the contractor. Total cost of additional items up to IPC-31 was Rs 163.88 million. Non-adherence to contract and non-application of rebate on additional items of works resulted in an overpayment of Rs 11.89 million.

Audit holds that overpayment was made due to weak internal controls.

Audit pointed out the overpayment in November 2015. The Authority replied that during the currency of contract, the work of Extension of Terminal Building cropped up. In Projects where there are variations and enhancement in scope of works, execution of works through the existing contractor is the most logical choice due to multitude of reasons. Accordingly M/s China State was asked to submit their proposals. Their proposal contained many conditions which were thoroughly examined by a Team of Project Director's Office and after deliberations and review/modifications the proposal was finally accepted. It was found equitable and justifiable to withdraw rebate.

The reply was not tenable because there was nothing on record regarding non-deduction of offered rebate. Moreover, additional work was already included in the original work but same portion was reduced during pre-bid meeting and later on same work was included in the works as additional portion. Thus same BOQ items were paid for additional/extended work but agreed rebate was not deducted.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends a probe into the matter and action against persons responsible besides recovery.

(Para 37 of AIR-NIAP)

#### **3.4.36 Overpayment due to incorrect application of rate - Rs 9.71 million**

Clause 52.2 of Contract Agreement (Vol-I) provided that if the nature or amount of any varied work relative to the nature or amount of the whole of the works or to any part thereof, is such that, in the opinion of the Engineer, the rate or price contained in the contract for any item of the works is, by reason of such varied work, rendered inappropriate or inapplicable, then, after due consultation by the Engineer with the Employer and the contractor, a suitable rate or price shall be agreed upon between the engineer and the contractor.

Audit noted during review of IPC-31 of work “Package-3, Passenger Terminal Building” (New Islamabad International Airport Project) that a BOQ item “Providing & placing straight or curved cast-in place designed mix reinforced cement concrete having cylindrical strength using type 1, 4500 Psi” was provided under Bill No. 03 (Concrete main building for construction of beam) against which contractor quoted rates Rs 13,557.23 per cu.m. Audit observed the same item was measured / utilized towards a non-BOQ work concrete of pile cap in the IPC-31 and IPC-02 of in extended work for 3,858.94 cu.m and paid and the same rare of Rs 13,557.23 per cu.m It is pointed out that the BOQ was meant for concreting of beams involving form work shuttering and scaffolding whereas pile cap was constructed underground wherein least form work and scaffolding was required, therefore, item rate was required to be reduced proportionately which was not done. Application of incorrect rate resulted in an overpayment of Rs 9.71 million.

Audit holds that overpayment was made due to weak internal controls.

Audit pointed out the overpayment in November 2015. The Authority replied that the work was for Bracing / Tie Beams on Pile Caps and below Slab on Grade (SOG). In fact requirement of scaffolding and form work was much higher than the Pile Caps due to narrow width cross section of beams. Therefore, CAA in fact saved money by paying the said rate to the contractor.

The reply was not tenable because Audit objected un-necessary inclusion of item as pile cap was constructed underground wherein least form work and scaffolding was involved and the cost was required to be deducted / reduced in original item.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends recovery of the overpaid amount.

(Para 39 of AIR-NIAP)

#### **3.4.37 Overpayment to contractor due to inadmissible price escalation - Rs 9.71 million**

As per standard procedure for Price Adjustment Parameter para 1, that weightage of specified items for each of the cost elements, having cost impact of five (05) percent or higher can only be selected for adjustment. Cost elements of HSD and labour shall be included in the Price Adjustment formula irrespective of their percentage determined for a particular project, if these are applicable for that project.

Audit noted that Civil Aviation Authority awarded a work “Package 8C-1 (ATC Complex & FCR Building, Radio Radar)” at New Islamabad International Airport to a contractor on 08<sup>th</sup> September, 2010 for Rs 1,470.17 million.

Audit observed that the Authority paid escalation of Rs 9.71 million on cement, whereas, as per Appendix-C to Bid the weightage of

cement was 0.030 which was lesser than admissible limit of 5%. This resulted in an overpayment of Rs 9.71 million.

Audit holds that overpayment was due to weak internal/financial controls.

Audit pointed out the overpayment in November 2015. The Authority replied that price adjustments are being made strictly in accordance with the Contractual Provision.

The reply was not tenable because according to standard procedure and formula for price adjustment issued by Pakistan Engineering Council, Islamabad, weightage of specified items for each item of the cost element having cost impact of five percent or high can only be selected for adjustment.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends early recovery from the contractor.

(Para 38 of AIR NIIAP)

#### **3.4.38 Loss due to non-levy of Passenger Embarkation Fee on bonafide staff members of Airlines - Rs 8.45 million**

General Financial Rule 10 (i-iv) provides every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money. Public moneys should not be utilized for the benefit of a particular person or section of the community.

Para 2 (iv) of Procedure for Collection of Embarkation Fee, dated 3<sup>rd</sup> August, 1983, denotes that Supernumerary crew shown on General Declaration Form and holding 100% rebate ticket are exempted for embarkation fee.

Audit noted that a number of passengers (domestic and international) of Airlines were given exemption by the Authority from levy of embarkation fee who were not the Supernumerary crew of aircraft. A test check was carried out for the months of July, December 2014 and July 2015 which revealed that 5,305 number passengers (Domestic/International) were given 100% exemption to the bonafide airline's members.

Audit observed that the exemption to levy of embarkation fee to bonafide members of airlines was granted in 1991 which was not in the interest of the Authority. This resulted into recurring loss on account of embarkation fee amounting to Rs 8.45 million.

Audit holds that recurring loss was due to weak internal/financial controls.

Audit pointed out non-levy of embarkation fee in July 2015. The Authority replied that the approval for exemption of embarkation fee to the bonafide staff members of Airlines was granted by HQCAA.

The reply was not tenable because such policy was not favourable to CAA in terms of revenue generation.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit emphasizes that exemption be reviewed and withdrawn in the best interest of CAA to avoid recurring loss.

(DP.19)

#### **3.4.39 Less recovery of license fee and security deposit - Rs 6.60 million**

As per Clause-5 of tender, reserve price for License of Establishment and Running of Duty Free Shop at International Departure

and Arrival Lounges (two locations) of Multan International Airport was US \$ 5000 per month each.

Audit noted that Airport Manager, Multan International Airport called tender on 13<sup>th</sup> September 2014 for grant of license for establishment and operation of duty free shops in international departure and arrival lounges area at reserve price of US \$ 5,000 plus space charges. The license was granted to a licensee on offered bid of US \$ 5,500 per month each plus space charges of category-A, Airport.

Audit observed that as per tender clause and Headquarters approval the monthly license fee was US\$ 5500 for each shop (i.e. \$ 11,000 for both locations) but the licensee paid only US\$ 5,500 for both shops instead of US\$ 11,000. The security deposit was also paid for one location i.e. US\$ 22,000 instead of US\$ 44,000. This resulted in less recovery of license fee and security deposit for US\$ 66,000 equivalent Rs 6.60 million.

Audit holds that less recovery was due to weak internal/financial controls.

Audit pointed out the less recovery in November 2015. The Authority replied that the tender notice published in newspaper it is very clear that reserved price for both the shops measuring 1,288 sq.ft., each was US\$ 5,000. The word “each” used in tender documents was a typographical mistake.

The reply was not tenable because tender document clearly indicates that reserved price US\$ 5,000 was for each shop and bidders have quoted his bid keeping in of view two shops. Further, the Authority did not share the calculation of reserved price with Audit.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends investigation for fixing responsibility and early recovery from the licensee.

(DP.149)

#### **3.4.40 Wastage of public money by incurring unnecessary expenditure - Rs 6.24 million**

General Financial Rule-10(i) provides that every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money. The expenditure should not be prima facie more than the occasion demands.

Audit noted that Civil Aviation Authority procured 24 modern type hand dryers @ Rs 260,000 on 8<sup>th</sup> January, 2015 involving Rs 6.24 million on the direction of Special Assistant to the Prime Minister.

Audit observed that the existing convention hand dryers were in running condition and also were very economical having cost of Rs 50,000 each, hence replacement of existing hand dryers with costly item resulted in wastage of public money amounting to Rs 6.24 million.

Audit holds that irregularity was due to weak internal/financial controls.

Audit pointed out the issue in October 2015. The Authority replied that the durable modern hand dryers offer good hygienic capabilities for occupational and public health by providing antibacterial HEPA filtering and energy efficient with 69% lesser annual operating cost and less electricity consumption.

The reply was not tenable as the hand dryer consumes very tiny amount of energy/electricity and will effect a little bit on the cost of electricity. The justification of less noisy and environmental friendly hand dryer on very noisy airports and highly consuming oil & lubricants is quite beyond apprehension. Incurring of expenditure on the luxurious ancillaries in the name of green aviation environment is wastage of money.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends inquiry and fixing of responsibility against the person(s) responsible.

(DP.76)

#### **3.4.41 Loss due to hiring of Public Relation Consultants without any justification - Rs 6.00 million**

General Financial Rule 10(i) denote that every officer incurring or authorizing, expenditure from public funds is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

Audit noted that Civil Aviation Authority awarded a contract for “Public Relations Consultancy” to a firm at a cost of Rs 6.00 million (Rs 500,000 per month).

Audit observed that Civil Aviation Authority has its own public relation branch under the control of Joint Director Public Relations, hence hiring of services of consultancy firm with the heavy expenditure of Rs 500,000 per month without any terms of reference and necessity stands unjustified. This resulted in a loss to Authority for Rs 6.00 million.

Audit holds that irregularity was due to weak administrative, financial and internal controls.

Audit pointed out the loss in September-October 2015. The Authority replied that due to increasing importance of Public Relations and Media Management, it was considered essential by the top management that services of Public Relations Consultants may be hired to improve the image amongst public and customers/stakeholders.



The reply was not tenable because the CAA's function is to provide aviation facility as per its mandate, but scope of services described in agreement was covered in routine works of public relation wing of the Authority.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends fixing of responsibility against the person(s) responsible.

(DP.66)

#### **3.4.42 Overpayment due to enhancement of consultancy work - Rs 5.64 million**

Clause 6.2 of the contract agreement of consultant denotes that the contract price shall be as under:

- For Planning and designing 35% of total fee (1.30% of actual cost of the project).
- For Construction Supervision 65% of total fee (2.35% of actual cost of the Project).

The total cost of the various works for running payments is estimated as Rs 600.00 million. Subsequently, the project cost will be adjusted on the basis of cost estimate worked out by the consultants, cost of work on award to the successful bidder and finally on the basis of actual cost of the Project.

Audit noted that Civil Aviation Authority awarded consultancy contract for the project "Expansion & Renovation of Quetta International Airport" to a firm and paid consultancy fee upto third running bill amounting to Rs 9.47 million.

Audit observed the first and second running bill for planning and designing phase was paid on the basis of project cost as Rs 600.00 million, whereas in third running bill, difference of fee was paid due to increase in the project cost as Rs 1,482.80 million. It was further observed that the cost was increased by 147.13% without any approval from competent forum. This resulted in an overpayment of Rs 5.64 million.

Audit holds that the overpayment was due to non-adherence of the rules and regulations and weak financial controls.

Audit pointed out the overpayment in September 2015. The Authority replied that on approval of PC-I amounting to Rs 1,611.00 million by the CAA Board in its 159<sup>th</sup> meeting, the third running bill considering the project cost of Rs 1,482.80 million (Works Outlay) was paid strictly in accordance with the agreement clause 6.2.

The reply was not tenable because 147% increase in project cost on such an initial stage was unjustified and resulted in excess expenditure on consultancy charges.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends investigation into the matter and fixing of responsibility against the person(s) responsible.

(DP.53)

#### **3.4.43 Less recovery - Rs 3.32 million**

Para D15.1 and D15.7 of policy and procedure regarding grant of business (concession) at Airports provides that, it is personal responsibility of the Airport Manager concerned to ensure that all the dues are realized from the licenses as soon as they become due. In any case when the dues remain in arrears or as commercial space remains unutilized, for more than 30 days a report in prescribed form is to be submitted to General Manager Commercial giving full particulars of the licenses, the amount due and the

reason for non-realization of the dues or non-utilization of the spaces as the case may be.

Audit noted that Civil Aviation Authority executed a license agreement with M/s Pakistan State Oil for parking of re-fueling on space measuring 14,670 Sq. ft at apron side of BBIAP Islamabad since long. Audit further noted that space was re-measured in March 2013 to ascertain the covered, un-covered and paved/un-paved status of land. After re-measuring of the space it was found that an area of 2,202.51 sq. ft was covered.

Audit observed that licensee used the 2,202.51 sqft covered area but paid charges to CAA for paved area. This resulted in less recovery of Rs 3.32 million.

Audit holds that the less recovery was due to weak internal/financial controls.

Audit pointed out less recovery in October-November 2015. The Authority replied that the licensee has been imposed covered rates for 2,202.51 sq ft area and recovery has been made.

The reply was not tenable because audit pointed out the recovery for 5 years (since July 2010 to June 2015) whereas Authority calculated the recovery w.e.f 1<sup>st</sup> July, 2015.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit emphasizes recovery from the licensee.

(DP.179)

#### **3.4.44 Loss on account of forfeiture of security deposit - Rs 3.10 million**

As per letter No. JIAP/1396-16/025/KCVG(PT) dated 16<sup>th</sup> December, 2014 regarding prequalification of security agency/firm, the Airport Manager, JIAP, Karachi informed the firm that they were prequalified, and directed them to produce security deposit equivalent to one month of offered bid for the security services in shape of pay order in favour of CAA.

Audit noted that Civil Aviation Authority invited tenders for prequalification of security firms for JIAP Karachi. After due tendering process the contract was awarded to a firm @ Rs 3.20 million per month for the period of one year from 1<sup>st</sup> January 2015 to 31<sup>st</sup> December 2015. As per above letter, the firm was also required to submit a pay order of Rs 3.20 million as security deposit.

Audit observed that the security agency submitted a pay order of Rs 100,000 instead of Rs 3.20 million. Despite the deficiency, the Authority awarded the contract to the agency. Further, the agency failed to provide the services as per the contract and the Authority de-hired the services of the agency w.e.f. April 2015. Audit further observed that there was no security with the Authority to forfeit except Rs 100,000 as submitted by the agency. This resulted in a loss on account of non-forfeiture of security deposit amounting to Rs 3.10 million.

Audit holds that loss was due to weak internal/financial controls.

Audit pointed out the loss in July 2015. The Authority replied that bills of Security Company amounting to Rs 9.02 million are pending. The recovery will be made from the bills.

The Authority admitted the recovery but no progress towards recovery was reported till the finalization of this Audit Report.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends early recovery from the company.

(DP.30)

#### **3.4.45 Non-adjustment of TA/DA Advances - Rs 1.99 million**

According to Para 87 of CPWA Code, when a disbursing officer makes a remittance to a subordinate officer to enable him to make a number of specific petty payments on a muster roll or other voucher which has already been passed for payment, the amount remitted should be treated as a temporary advance and accounted for in Form 2 in the same way as an imprest. The account of a temporary advance should be closed as soon as possible. Further, all advances on account of TA/DA sanctioned by authority for the officers/ officials were to be adjusted from the officers/officials after the completion of tours for which it was sanctioned.

Audit noted that Civil Aviation Authority paid TA/DA advances to the employees of Ministry of Defence during 2010, 2011, 2012, 2013, 2014 and 2015 amounting to Rs 1.99 million

Audit observed that advances allowed to the employees of Ministry of Defence were not adjusted/recovered despite a lapse of four years. This resulted in non-adjustment of Rs 1.99 million.

Audit holds that non-adjustment was due to weak internal/financial controls.

Audit pointed out non-adjustment in October 2015. The Authority replied that the TA/DA advances were paid to Ministry of Defence's officers in respect of visits to foreign countries for bilateral talks with the approval of Competent Authority as per their entitlement.

The reply was not tenable because TA/DA advances are adjustable as soon the tour (local/foreign) is completed whereas subjected TA/DA are outstanding since 2010.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends adjustment of advances and fixing of responsibility against the person(s) responsible.

(DP.96)

**3.4.46 Loss due to non-adherence to the agreement's provision - Rs 1.97 million**

As per agreement executed between Civil Aviation Authority and M/s Air Gate International for collection of Cargo Throughput charges, the license was granted for a period from 28<sup>th</sup> July, 2009 to 27<sup>th</sup> July, 2013 @ Rs 25.94 million per month with annual enhancement @15% (the last year's license fee comes to Rs 39.94 million per month).

Audit noted that after expiry of agreement period the Director General, Civil Aviation Authority granted extension for a period of 15 days with 10% enhancement @ Rs 43.40 million per month. The period was further extended for a period of 15 days w.e.f 12<sup>th</sup> August, 2013 to 26<sup>th</sup> August, 2013 on the same terms and conditions.

Audit observed that as per agreement the enhancement for the extended period was required @15% on the last license fee but the Authority reduced the rate of enhancement in violation of the agreed terms. This resulted into a loss of Rs 1.97 million.

Audit holds that due to non-adherence to agreemental obligation, Authority sustained a loss of Rs 1.97 million.

Audit pointed out the loss in July 2015. The Authority replied that when the contract of CTC was awarded for four years w.e.f 28<sup>th</sup> July, 2009

to 27<sup>th</sup> July, 2013 on the basis of policy in vogue at that time. The policy was revised during the year 2012 wherein annual enhancement is @ 10% therefore extension was granted in the light of prevailing policy during 2013.

The reply was not tenable because the extension was granted in the existing agreement therefore; the conditions of existing agreement were required to be followed instead of new policy.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends recovery of loss and fixing responsibility against the person(s) responsible.

(DP.21)

#### **3.4.47 Unjustified reimbursement of Legal Fee and expenses for engaging lawyer against personal case - Rs 1.79 million**

Rule 10(i) of General Financial Rules (Vol-I) provides that every officer incurring or authorizing, expenditure from public funds is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

Audit noted that Civil Aviation Authority made a payment of Rs 1.79 million to ex-Director General CAA on account of reimbursement of expenses incurred by him in connection with his case in the Supreme Court of Pakistan.

Audit observed that details of the court case were not on record with the Authority to determine whether it was personal case of ex-DG or CAA's case. The re-imburement of legal expanse to an ex-employee without determining the status of the case was unauthorized. Further evidence in support of expenditure cannot be treated as authentic because

in some vouchers it was simply stated that cash was received. This resulted in unjustified payment of Rs 1.79 million.

Audit holds that the irregularity was due to weak internal/financial controls.

Audit pointed out unjustified payment in September-October 2015. The Authority replied that Supreme Court of Pakistan issued notice to Ex-DG CAA in a case pertaining to issues related to CAA. The court notice was also issued in the capacity of Former DG CAA. The CAA Board accorded approval for payment of legal cost and expenses.

The reply was not tenable because the case in question does not pertain to CAA otherwise services of the lawyer would have been hired through its legal wing after observing codal formalities. The expenses were reimbursed to the ex-employee without sufficient evidence instead of payment directly to the lawyer.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends recovery from the concerned.

(DP.69)

#### **3.4.48 Loss due to delay in execution of scheme - Rs 1.70 million**

As per para 10(i) of General Financial Rules, every public servant is expected to 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.

Audit noted that Civil Aviation Authority (Jinnah International Airport) proposed a scheme for providing and installation of Energy Meters at CAA Residential Area JIAP Karachi with an estimated cost of Rs 9.60 million. The DGCAA approved the scheme on 5<sup>th</sup> December, 2012.



Audit observed that after approval of scheme, the Director Electrical & Mechanical suggested on 11<sup>th</sup> January, 2013 to execute the scheme in the next financial year with the reason that the processing of the case and job initiation would take the considerable time and only about 10 to 20% of the project cost would be disbursed during current financial year. Audit further observed that the scheme was again submitted for approval on 23<sup>rd</sup> August 2013 with the revised estimated cost of Rs 11.36 million which was accordingly approved by the DGCAA and the work was awarded after tender process on 15<sup>th</sup> April 2014 for Rs 11.30 million. This resulted in a loss of Rs 1.70 million due to delay in execution of scheme.

Audit holds that the loss was due to weak internal/financial controls.

Audit pointed out the loss in July 2015. The Authority replied that the scheme was initiated on 13<sup>th</sup> February, 2012 and submitted to HQCAA for approval. The case was returned on 16<sup>th</sup> January, 2013. Considering the imperative requirement of work, it was resubmitted on 5<sup>th</sup> March, 2013 to HQCAA for approval but again returned back with the instructions to keep it pending till next financial year. Major delay was observed in approval of estimated cost which was beyond the control of Airport Manager, JIAP.

It is evident from the reply that delay in approval was at the part of management which resulted in a loss to the Authority.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends investigation and fixing of responsibility against the person(s) at fault.

(DP.33)

#### **3.4.49 Loss of revenue due to application of incorrect rates - Rs 1.23 million**

Rule 26 of Chapter (3) Revenue and Receipts of GFR provides that, it is the duty of the departmental Controlling officers to see that all sums due to Government: are regularly and promptly assessed, realized and duly credited in the Public Account.

Audit noted that Airport Manager, Faisalabad International Airport entered in an agreement for space of 4,000 Sft paved area and 2,889.25 Sft non-operational space (Non-Air conditioned) inside terminal building with a licensee for the period 06<sup>th</sup> February, 2012 to 30<sup>th</sup> June, 2017.

Audit observed that lesser rate for covered space was applied in the agreement than the approved space rates of CAA. This led to less recovery of Rs 1.23 million.

Audit holds that loss was due to weak internal/financial controls.

Audit pointed out the loss in October 2015. The Authority admitted the irregularity and promised to recover the same.

Progress towards recovery was not reported till the finalization of this Audit Report.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends early recovery of the amount involved.

(DP.85)

#### **3.4.50 Non-execution of lease deeds for the spaces occupied by PIAC resulted in a loss of millions of rupees**

According to para-13 of Land Lease Policy-2001, a standard form of Lease Deed has been prepared in the light of CAA Land Lease Policy

and CAA Board, which may be executed after incorporating necessary and due changes to suit the requirement of each case.

Audit noted that Civil Aviation Authority awarded 38 spaces measuring 771,779.88 square yards to M/s PIAC since long for their offices, residential colony, hanger, flight kitchen, engineering area etc.

Audit observed that the Authority did not execute proper lease deeds with M/s PIAC in violation of CAA Land Lease Policy. Due to non-execution of proper lease deeds there is no proper check and balance of the area handed over to M/s PIAC. Audit further observed that non-execution of lease deeds also resulted in a loss of millions of rupees to government on account of stamp duty @ Rs 0.025% of the land cost.

Audit holds that non-execution of lease deeds shows the mismanagement and weak internal/financial controls.

Audit pointed out the non-execution of lease deeds in July 2015. The Authority replied that case of M/s PIAC has been under consideration for execution of lease agreement at HQ level.

The reply was not tenable because it is fact that CAA failed to execute lease agreements with M/s PIAC since many years. Audit is of the view that the matter may be taken up with the higher authorities to regularize the land cases.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends investigation in the matter and execution of lease agreements.

(DP.32)

### **3.4.51 Non-initiating of disciplinary proceedings against employee having Bogus Degrees**

As per standing instructions by the Government of Pakistan all departments/organizations under the administrative control of the Federal Government are required to verify the educational degrees/certificates from the respective Universities/Boards or Institutions.

Audit noted that Civil Aviation Authority made a payment to various universities on account of verification of degrees of its employees during the year 2014-15 amounting to Rs 2.07 million.

Audit observed that out of 13,848 degrees, 83 degrees of employees were found Bogus and 3 were found tempered, whereas verification of degrees in respect of 2,547 was not completed. Audit further observed that any disciplinary action under Efficiency and Discipline (E&D) Rules was not initiated and finalized against the persons serving in the authority on the basis of bogus/tempered degrees.

Audit holds that employees having bogus/tampered degrees were recruited/promoted due to negligence of management as neither degree were verified at the time of appointment nor any action was taken on confirmation of degrees bogus/tampered by the respective Institutions. This resulted in non-initiating of disciplinary proceedings against employees serving in authority on the basis of bogus/tempered degrees.

Audit pointed out the irregularity in September-October 2015. The Authority replied that degrees/certificates of CAA officers/officials got verified from the Institutes/Universities concerned and taken necessary disciplinary action against the officers/officials whose degrees were found bogus.

The reply was not tenable because action in twelve (12) cases out of 86 cases was finalized and most of the remaining cases were in courts/under process.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends early action against the defaulter employees.

(DP.64)

## **CHAPTER 4**

### **NATIONAL HIGHWAY AUTHORITY (MINISTRY OF COMMUNICATIONS)**

#### **4.1 Introduction**

National Highway Authority (NHA) was established in 1991, through an Act of Parliament. The purpose and functions of the Authority are to plan, promote, organize and implement programmes for construction, development, operation, repair and maintenance of National Highways and strategic roads specially entrusted to it by the Federal Government or by a Provincial Government or any other Authority.

NHA has its Headquarters at Islamabad with Regional Offices at Peshawar, Abbottabad, Burhan, Gilgit, Balkasar, Lahore, Multan, Karachi, Sukkur, Quetta and Khuzdar. NHA is currently custodian of 12,131 kilometers of highways, motorways, expressways and strategic roads. The longest route is N-5 (Karachi-Lahore-Peshawar-Torkham) with a length of 1,819 Km. The second largest route is N-55 (Kotri-Larkana-Dera Ghazi Khan-Dera Ismail Khan-Peshawar) with a length of 1,264 Km.

#### **4.1.1 Duties and Responsibilities**

NHA is entrusted with the following functions and duties:

- i. To advise Federal Government on matters relating to national highways and strategic roads.
- ii. To frame scheme(s) for construction, expansion, operation and development of national highways and strategic roads and undertake work on such scheme(s).
- iii. To acquire any land in accordance with legal procedure and obtain and dispose of moveable and immovable property and interests therein.

- iv. To do research and development in the field of highways.
- v. To procure plant, machinery, instruments and materials required for its use.
- vi. To enter into and perform all such contracts as it may consider necessary.
- vii. To levy, collect or cause to be collected tolls on national highways, strategic roads and such other roads as may be entrusted to it and bridges thereon.
- viii. To extend licence facilities on roads under its control on such terms as it deems fit.
- ix. To maintain legal enforcement in Right of Way.

#### **4.1.2 Organizational Structure**

NHA is under the administrative control of Ministry of Communications and is headed by a Chairman. The affairs of the Authority are regulated through National Highway Council (NHC) and National Highway Executive Board (NHEB).

Organizational set up of the Authority comprises five core Wings, i.e. Planning, Construction, Operations, Finance and Administration. Each Wing is run by various Members of NHEB, including Member (Planning) Member (Engr-Coord), Member (KLM), Member (South Zone), Member (Central Zone), Member (West Zone), Member (North Zone), Member (Finance) and Member (Admn) with the assistance of a number of General Managers.

#### **4.1.3 Funding/Income sources and positions**

##### **Grants**

- Federal Government

##### **Loans**

- Cash Development Loan (loans obtained from Federal Government including foreign loans through PSDP)

## Operating Income

- Toll collection at toll plazas
- Right of Way (ROW) charges of Petrol Pumps, CNG stations, restaurants, etc.
- Sale of tender, sale proceeds of assets, land and vehicles
- Bonds, shares and other means

Operating income for the year 2014-15 is as under:

(Rs in million)

S. No.	Description	Estimated Revenue	Gross Revenue	Operational Charges	Net Revenue
1.	Toll Collection	16,903.00	16,271.00	727.00	15,544.00
2.	Weigh Stations Income	105.00	423.00	200.00	223.00
3.	Right of Way/Rental Income	469.00	306.00	0	306.00
4.	Police Fine (N-5)	2,281.00	2,401.00	582.00	1,819.00
5.	Other Miscellaneous	695.00	1,490.00	0	1,490
<b>Total</b>		<b>20,453.00</b>	<b>20,891.00</b>	<b>1,509.00</b>	<b>19,382.00</b>
<b>Less Police Fine Share</b>					<b>(909.50)</b>
<b>Net</b>					<b>18,472.50</b>

## 4.2 Comments on Budget and Accounts (Variance Analysis)

Table below shows the position of budget allocation and actual expenditure for the financial year 2014-15:

(Rs in million)

Type of Funds	Allocation	Releases	Actual Expenditure	Excess/ (Saving)	Excess/ (Saving) in %
<b>Non-Development</b>					
Maintenance Grant (GoP)	2,032.72	2,017.72	2,017.72	-	-



Type of Funds	Allocation	Releases	Actual Expenditure	Excess/ (Saving)	Excess/ (Saving) in %
Establishment Grant (GoP)	115.12	100.11	100.11	-	-
Road Maintenance Account	22,017.92	18,265.86	16,671.14	(1,594.72)	(8.73)
<b>Sub-Total</b>	<b>24,165.76</b>	<b>20,383.70</b>	<b>18,788.98</b>	<b>(1,594.72)</b>	<b>(-7.82)</b>
<b>Development Funds</b>					
PSDP (Local)	78,429.94	61,944.94	21,135.09	(40,809.85)	<b>(65.88)</b>
PSDP(Foreign)	35,133.00	26,123.29	26,123.29	-	-
<b>Sub-Total</b>	<b>113,562.94</b>	<b>88,068.23</b>	<b>47,258.38</b>	<b>(40,809.85)</b>	<b>(46.34)</b>
<b>Grand Total</b>	<b>137,728.70</b>	<b>108,451.93</b>	<b>66,047.36</b>	<b>(42,404.57)</b>	<b>(39.10)</b>

Following issues were found during examination of the budget, expenditure and revenue statements:

- i. Against the estimated receipts of Rs 20,453.00 million, the Authority was able to actualize net receipt of Rs 18,472.50 million involving a shortfall of Rs 1,980.50 million (9.68%).
- ii. Saving of Rs 40,809.85 million i.e. 65.88% of total releases under PSDP/Development budget (Local) was observed which showed that the development targets set for the year 2014-15 were not achieved by NHA. Main reason of saving was non-utilization of funds of Rs 43,313.82 million released during 4<sup>th</sup> Quarter of the financial year.

#### **4.3 Brief comments on the status of compliance with PAC's directives**

Compliance position of PAC's directives on Audit Reports relating to NHA is as under:

Year	Total Paras	No. of Paras Discussed	Compliance Made	Compliance Awaited	Percentage of compliance
1987-88	10	10	8	2	80.00
1989-90	3	3	2	1	66.67

<b>Year</b>	<b>Total Paras</b>	<b>No. of Paras Discussed</b>	<b>Compliance Made</b>	<b>Compliance Awaited</b>	<b>Percentage of compliance</b>
1990-91	9	9	8	1	88.89
1991-92	31	31	25	6	80.65
1992-93	88	88	83	5	94.32
1993-94	117	117	26	91	22.22
1994-95	38	38	34	4	89.47
1995-96	25	25	23	2	92.00
1996-97	45	45	42	03	93.33
1997-98	468	300	358	110	76.50
1998-99	177	177	154	23	87.01
1999-00	185	185	130	55	70.27
2000-01	244	244	213	31	86.58
	2 PAR	2 PAR	-	2 PAR	-
2001-02	70	70	43	27	61.43
2003-04	50	50	24	26	48.0
2004-05	27	27	19	08	70.37
2005-06	30	30	24	06	80.00
2006-07	65	65	49	16	75.38
2007-08	36	36	11	25	30.56
2008-09	SAR-120	4	-	-	-
2010-11	86	86	42	44	48.84
	16 PAR	16	1	15	6.25
	24 PAR	24	11	13	45.83
	36 PAR	36	16	20	44.44
2013-14	45	45	05	40	11.11

Note: Audit Reports for 2002-03, 2009-10, 2011-12, 2012-13 and 2014-15 have not been discussed by PAC till the finalization of this Audit Report. Audit Report for 1997-98 and Special Audit Report 2008-09 (FY 2005-08) were partially discussed.

## **4.4 AUDIT PARAS**

### **Irregularity and Non-Compliance**

#### **4.4.1 Irregular award of work to ineligible joint venture - Rs 12,937.31 million**

As per Clause 1.2.1(ii) of Standard Procedure for evaluation of bids for procurement of works issued by Pakistan Engineering Council in March 2009, a most important element that has to be considered and accorded appropriate weightage to determine the lowest evaluated responsive bidder for award of contract is the condition of holding of a current valid license to practice as constructor.

As per clause 2.2.1(i), prior to proceeding with the laying down of procedure/instructions for the evaluation of bids, one of the important stages of the bid evaluation is the preliminary examination to see whether the bidder holds a valid license from the PEC and falls within the category allowed to participate for the size of the project.

Clause 3.4(b) states that besides any other requirements of the Employer, the bidder must be a PEC licensed constructor. All partners to a joint venture shall also be similarly registered, i.e. local or foreign and the joint venture shall be registered in Pakistan with PEC”.

Clause 3.4 (f) (xvi) also provides that “A bid is likely not to be considered if the bidder is not valid license holder of the PEC”.

Audit noted that the National Highway Authority awarded the work for construction of Motorway (M-4-Extension) from Khanewal to Multan (57 KM) to a contractor vide Acceptance letter dated 24<sup>th</sup> September, 2011.

Audit observed that the work was awarded irregularly in light of the below mentioned facts:

- i. At the time of bid opening on 3<sup>rd</sup> August, 2011, the Joint Venture (JV) was not registered with PEC and registration was issued on 21<sup>st</sup> September, 2011. Hence, pre-qualification of the Joint Venture without PEC registration and consideration for bid was a big question mark.
- ii. The PEC registered the Joint Venture in specialized category “CE-01” for execution of road and pavements, drainage & retaining structure, etc. whereas the awarded work also includes Bridge Piles and Interchanges (more than 50% of the total cost) for which Joint Venture was not authorized to construct.

Audit holds that the irregularity occurred due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the irregularity in August 2015. The Authority replied that the contract was awarded at a cost of Rs 12,937.31 million. The contract was awarded to M/s EKO – M/s KRC (JV), whereas M/s EKO is the lead member of JV with 70% share as per JV agreement. M/s EKO, a company incorporated and existing under the law of Turkey. M/s EKO-LRC (JV) submitted their pre-qualification documents with payment Challan No. 0264713 for getting project specific PEC registration for lead partner i.e. M/s EKO (Foreign based firm) while M/s KRC local based firm submitted valid PEC license as required.

The reply was not tenable as at the time of tendering M/s EKO had no valid registration by PEC as per provision of bidding documents and the JV was also not got registered by any agency in Pakistan like PEC, SECP etc. Moreover, lead partner was also not having licence in the special category in bridges/structure work whereas the contract contained the 50% of the component of structure work.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends that responsibility may be fixed against the persons at fault.

(DP. 127)

#### **4.4.2 Non-implementation of directions of Chairman NHA on the premature failure of a road project - Rs 8,757.72 million**

As per direction of Chairman NHA in meeting held on projects/maintenance works of Khyber Pakhtunkhwa on 12<sup>th</sup> November, 2014, inspection of the project of Additional Carriageway, ACW-N-55 (ICB-I + ICB-II) was held on 6<sup>th</sup> February, 2015. The committee comprised mainly of Member (Operations) NHA and Executive Director (Highway Research Training Centre) NHA. The committee recommended the following actions:

- i. The defective works be got rectified on risk and cost of contractor.
- ii. Action be taken against the consultant.
- iii. Alternatively the case be referred to external agency for investigation.

In another meeting on 19<sup>th</sup> March, 2015 following issues were deliberated:

- a. Adequacy of design in terms of load and hydrological condition of the area.
- b. Checking quality of material used by contractor.
- c. Checking and verification of the executed works in accordance with approved design/construction drawings.

The General Manager (Monitoring & Inspection) also recommended that defective works be got rectified on risk and cost of the contractor and action be taken against the consultant and contractor.

Audit observed that despite directions, NHA management could not take any concrete step towards making good the loss of Rs 8,757.72 million so far. The contractor was favored with taking over certificate, defects liability period, release of a major part of retention money. He also encashed his performance bond etc. The recommendation of committee, directives in this regard were still to be implemented.

The matter was taken up with the management in September 2015. The Authority did not reply.

The matter was discussed in DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January, 2016 wherein NHA explained that the retention money was released on the written request of M/s HCL to Resident Engineer M/s Renardet who forwarded and recommended the case to Project Director (ACW-N-55). None of the defects were rectified in the defect liability period or after the defect liability period. In this regard a joint assessment report was prepared for rectification of defects by NHA. It was assessed that the amount of Rs 1,115.55 million was required to rectify the defects for ICB-I. Similarly an amount of Rs 172.00 million was required to rectify the defects in ICB-II. The period of 60 days was provided to the contractor M/s HCL for rectification of the defects but neither defects were removed nor the balance work was completed. The NAB team from Peshawar visited the Project from in October 2015 and conducted detailed site visit and collected materials and samples. Therefore, the necessary action was still awaited till the findings of the NAB. DAC pended the para till decision on the findings by NAB.

Audit recommends that responsibility be fixed against persons responsible besides corrective action.

(DP.31)

#### **4.4.3 Irregular award of work to ineligible contractor in the cover of Joint Venture - Rs 6,775.23 million**

Clause 4 of Notice Inviting to Tender (NIT) published in newspaper dated 12<sup>th</sup> April, 2014 provides that national bidders are

required to be registered with Pakistan Engineering Council with a valid registration certificate in category C-A or above.

As per PEC Bye-Laws no engineering work shall be constructed except by a constructor or operated except by an operator licensed as such by the Council. The license issued to the constructor or operator shall specifically mention the type of work and limit which specify the category of the contractor entitlement for execution of work that the constructor or operator can undertake according to discipline shown in the application form prescribed in the Appendix-A, to the bye-laws.

Audit noted that M/s AM Associates having PEC license Category C-B having financial limit of Rs 3,000 million was awarded the contract ICB-E-35-II Jarikas to Sarai Saleh (km 20+400 to km 39+611) valuing Rs 6,775.23 million with the JV foreign bidders M/s China Gezhouba Group Co Ltd. (CGGC)- M/s AM Associates Construction Company (JV) vide acceptance letter dated 28<sup>th</sup> November, 2014. A review of the technical evaluation report (part two of contract agreement) indicated that M/s AM Associates submitted detail of its own machinery on the basis of which said JV was technically evaluated as responsive bidder, there is no provision in the contract for foreign exchange component against which M/S CGGC would import the machinery from Foreign Country.

Audit holds that work would be got executed by M/s AM Associates on ground instead of JV, who was not registered in category C-A with PEC which is mandatory requirement as per notice for inviting tenders and in actual JV would not work as JV.

Non-adherence to rules caused award of contract valuing Rs 6,775.23 million to non-eligible contractor.

Audit holds that the irregularity occurred due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the irregular award of work in March 2015. The Authority replied that the project was financed by ADB and procurement was done as per ADB guidelines. Each and every activity carried out by NHA was shared with ADB and their concurrence was taken. As per criteria “National bidders must be registered with Pakistan Engineering Council and shall have a valid registration certificate in category C-A or above with specialization in CE-01 or CE-02”.

The reply was not tenable because NIT provides that national bidders shall have registration in category C-A or above are entitled for participation in the bidding whereas M/s AM Associates was licensed under category C-B and actually working at site instead of international firm M/s China Gezhouba, therefore, award to non-eligible contractor is established.

The matter could not be discussed in the DAC meeting despite best efforts made by Audit.

Audit recommends fixing of responsibility against the persons responsible.

(DP. 108)

#### **4.4.4 Irregular award of work to a disqualified in-eligible firm for Rs 4,405.62 million and loss due to delay in award of work - Rs 469.28 million**

As per eligibility of technical bids, PEC certificate for the year 2013 in Category C-A with specialized Category CE-01 and CE-02. In case of Joint Venture with foreign firm, “Project Specific” certificate of PEC also required.

Planning & Development Division’s letter dated 22<sup>nd</sup> June, 1980 provides that if the total estimated cost as sanctioned increased by a margin of 15 percent or more or if any significant variation in the nature of the scope of the project was made, irrespective of whether or not it involves an increased outlay, the approval of the ECNEC/competent



authority shall be obtained in the same manner as in the case of the original scheme without delay.

Para-48 Chapter-2 of NHA Code (Vol-I) provides that if an approved work is not commenced within 05 years of the date of administrative Approval, fresh approval must be obtained.

PC-I of the project “Peshawar Northern Bypass 32.2 Km” was approved by the ECNEC on 4<sup>th</sup> August, 2005 at a cost of Rs 3,078.08 million, revised on 4<sup>th</sup> February, 2010 at a rationalized cost of Rs 9,002.75 million. The project was divided in 04 packages.

**4.4.4.1** Audit noted that tenders of work Construction of Peshawar Northern Bypass, Package-II: Charsadda Road to Versak road (KM7+600 to KM19+500) were invited on single stage-two envelope procedure at estimated cost of Rs 3,060 million. Date of opening/receiving of bids was 15<sup>th</sup> July, 2013. Sixteen (16) firms purchased the bidding document out of which ten (10) proposals were opened for technical evaluation wherein three (3) firms were found eligible and technically qualified. As per provision of rules and bidding documents, financial bid of all three firms was required to be opened as per recommendation of the committee but financial bid opening was further extended upto 5<sup>th</sup> November, 2013, four months later than the original date of bid opening. This extension was meant for providing opportunity to a JV (M/s RMC - M/s CLIC) for providing “project specific” certificate by the PEC as it was declared disqualified during the technical evaluation. Subsequently, the said JV provided the certificate and participated in the bidding and its bid was opened by declaring it lowest for Rs 4,405.62 million which was 43.99% above the Engineer’s estimated cost of Rs 3,059.47 million.

Audit holds that extension of bid opening date without any technical/cogent justification was only to provide opportunity to a disqualified firm without justification and against the spirit of transparency. It is further added that M/s RMC, lead firm, had no specific work experience for completion of one similar work having worth Rs 2,142 million in last 5 years 2008-2013 as well as its past performance

on the project Construction of Flyovers of Multan Package was not evaluated.

Non-adherence to provision of bidding documents and award of work resulted in irregular/un-authorized grant of time extension for bid opening to a disqualified non-eligible firm for Rs 4,405.62 million.

Audit holds that irregular/un-authorized grant of time extension for bid opening to a disqualified non-eligible firm was due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit took up the matter with the management in September-October 2015. The Authority did not reply.

The matter was discussed in the DAC meeting held on 2<sup>nd</sup> February, 2016. Audit informed that work was awarded to a disqualified firm by providing opportunity with grant of time extension for price bid opening. GM P&CA explained that extension was granted to 3 firms rather than single firm and no preferential treatment was afforded to them. Audit reiterated that PEC certificate in category C was required prior to bid submission rather than in extended time. Moreover, lead firm M/s RMC had no specific work experience for completion of one similar work having worth Rs 2,142.00 million in last five years. The Committee directed that revised reply along with supporting record may be provided to audit for evaluation of authenticity of the authority stance.

The compliance of DAC's directive was not made till finalization of this Audit Report.

Audit recommends for early compliance of DAC's directive.

(DP. 197)

**4.4.4.2** Audit further noted that the work was put to tender at Engineer's estimated cost of Rs 3,059.47 million. The work was awarded to M/s RMC-M/s CLIC (JV) for Rs 4,405.62 million, 43.99% above the Engineer's Estimates/Admin Approval beyond the permissible limit of

15% vide acceptance letter dated 18<sup>th</sup> February, 2014 and contract agreement was signed on 14<sup>th</sup> May, 2015. It is also worth to mention that the award was made even higher than the revised PC-I provision which was not admissible.

Non-adherence to the Planning Division instructions and acceptance of bid at higher rates caused irregular/unauthorized acceptance of bid for Rs 4,405.62 million.

Audit holds that acceptance of bid at higher rates was due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit took up the matter with the management in September-October 2015. The Authority did not reply.

The matter was discussed in the DAC meeting held on 2<sup>nd</sup> February, 2016. Audit informed that the work was awarded 43.99% above the engineer's estimate/admn approval/PC-I. NHA explained that Planning Commission instructions are not applicable on NHA. Audit reiterated that acceptance of bid beyond the permissible limit over the admn approval is not admissible and revised admn approval is required prior to acceptance of bid as provided Para 59 Chapter-2 of the NHA Code and Planning Commission instructions are applicable on all development projects. The Committee directed that revised admn approval through revision of PC-I may be sought from ECNEC.

The compliance of DAC's directive was not made till finalization of this Audit Report.

Audit recommends for early compliance of DAC's directive.

(DP. 198)

**4.4.4.3** Audit noted that pre-qualification of contractors for work "Construction of Peshawar Northern Bypass, Package-II: Charsadda Road to Versak road (KM 7+600 to KM 19+500)" was carried out in April

2010. After evaluation, seven (7) firms were pre-qualified. Bid submission and opening was made in February 2011 about ten (10) months later than the pre-qualification and in this intermittent period, three addendums were issued wherein bid security and performance guarantee in the shape of Bank Guarantee was demanded rather than Insurance Bond. Resultantly only M/s FWO submitted its bid for Rs 3,936.34 million against the Engineer's estimated cost of Rs 2,810.93 million. The bidding process was annulled by Chairman, NHA and bid process was reinitiated in February 2012 on Single Stage-Two Envelop procedure wherein M/s FWO again declared first lowest with bid price of Rs 4,188.60 million. NHA again did not award the work to the lowest bidder and after expiry of one year in May 2013, M/s FWO was asked to extend his bid validity period. They refused and requested NHA to return bid security. Peshawar High Court took notice of delay in completion of the project and directed to expedite the same in 2013. NHA initiated bidding process 3<sup>rd</sup> time on 13<sup>th</sup> June, 2013. Bids were opened/received on 15<sup>th</sup> July, 2013 and work was awarded to M/s RMC - M/s CLIC (JV) at contract cost of Rs 4,405.62 million vide letter of acceptance dated 18<sup>th</sup> February, 2014 and contract was signed in 14<sup>th</sup> May, 2015, i.e. fifteen months later than the issuance of letter of acceptance.

Audit holds that procurement of contract was initiated in April 2010 which was concluded in May 2015 about 05 years later than the initiation of the procurement process and this delay caused extra expenditure in the shape of high bid price for Rs 469.28 million (Rs 3,936.34 million- Rs 4,405.62 million) which is ultimate loss to the public exchequer.

Non-award the work within bid validity period caused a loss of Rs 469.28 million.

Audit holds that the loss was due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit took up the matter with the management in September-October 2015. The Authority did not reply.

The matter was discussed in the DAC meeting held on 2<sup>nd</sup> February, 2016. Audit informed that tendering of the work was initiated in 2010 and work was not awarded within the bid validity period and inordinately delayed but subsequently awarded in 2015 at high bid price of Rs 469.281 million as compared to bid of 1<sup>st</sup> lowest bid in 2012. General Manager P&CA explained that a number of procurement attempts were made but due to various reasons it was delayed. The Committee directed that revised reply along with supporting record may be provided to audit for evaluation of authenticity of the Authority's stance.

The compliance of DAC's directive was not made till finalization of this Audit Report.

Audit recommends for early compliance of DAC's directive.

(DP. 199)

#### **4.4.5 Irregular/unauthorized award of work to non-eligible firm - Rs 1,808.19 million**

Para 10 (c) of Chapter-3 of NHA Code 2005 (Vol-I) provides that prior approval of the next higher authority shall be required in cases, where only two or less tenders have been received and it is intended to place order to the only tenderer or the lower of the two.

Clause 4 of NIT published in newspaper dated 12<sup>th</sup> April, 2014 provides that national bidders are required to be registered with Pakistan Engineering Council with a valid registration certificate in category C-A or above.

Audit noted that tenders for the work "River training & protection works of Shaheed Benazir Bhutto Bridge over River Indus connecting Chachran Sharif with Kot Momin" were invited on 27<sup>th</sup> March, 2014 wherein eleven (11) firms submitted their technical bids out of which only

two declared technically qualified. Financial proposal of these two firms were opened wherein M/s Salman Enterprises with his bid amount Rs 1,808.19 million was announced as lowest bidder. The contract was awarded to the firm in September 2014. The award of said work was irregular/un-authorized due to following reasons:

- i. The award was approved by the Executive Board whereas in case of two bids, the approval of next higher authority i.e. National Highway Council was required to be solicited.
- ii. M/s Salman Enterprises was registered in PEC in C-B category whereas Notice Inviting Tender published in press requires eligibility of contractor having C-A category.
- iii. M/s Salman Enterprises has never executed any NHA project in the past, therefore, award of work was required to be made through wider pool of contractors working with NHA instead of deployment of stranger firm.
- iv. A review of technical bid indicated that personnel capabilities/experience of the key personnel was far lesser than the threshold experience required in the bidding documents.
- v. Comparative examination of the financial bid indicated that contractor submitted un-balanced rates as rates of some item quoted in the range of -6.20% to -78.06% than the Engineer's Estimate and certain items having rates above 16.85% to 29.63% above the Engineer's Estimate, therefore, proper analysis of rates was required to be carried out as well as no undertaking on account of execution of items having rates lesser than 15% as provided in Engineer's Estimate was obtained.

Non-adherence to NHA Code and provision of bidding document caused irregular/unauthorized award of work to non-eligible firm for Rs 1,808.19 million.

Audit holds that irregular/unauthorized award of work to non-eligible firm was due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the irregularities in September-October 2015. The Authority did not reply.

The matter was discussed in DAC meeting held on 2<sup>nd</sup> February, 2016. Audit contended that work was awarded to a firm having C-B category whereas C-A category was required for eligibility without approval of the next higher authority i.e. National Highway Council on having received only two responsive bids. NHA explained that PEC criteria of eligibility was revised C-A to C-B category vide addendum No. 01 issued on 29<sup>th</sup> January, 2015. Audit clarified that contract was awarded on 16<sup>th</sup> September, 2014 whereas addendum was issued on 29<sup>th</sup> January, 2015 after award of contract. The Committee showed displeasure over the discrepancy of the dates and directed that revised reply alongwith supporting record be provided to Audit for evaluation of the authenticity of the Authority's stance.

The compliance of DAC's directive was not made till the finalization of this Audit Report.

Audit recommends early compliance of DAC's directive.

(DP. 196)

#### **4.4.6 Irregular execution of works without approval of the competent forum - Rs 1,552.40 million**

As per Para 97 of Chapter 3 of NHA Code, 2005, normally the designs, specifications, estimates and the bills of quantities shall be prepared on such a realistic basis and so accurately that necessity for issuance of variation/change orders at a later stage does not arise. Variation/change orders shall, as far as possible, be avoided as a matter of policy. As per Para 98 of the ibid Code, if, however, it was felt that issuance of a variation/change order was essential due to change in

alignment, design or specifications, the same shall be issued with the approval of the competent authority (Table III-13). The aggregate value of all variation orders issued against a contract shall not exceed 30% of original contract amount.

As per Planning and Development Division, Government of Pakistan O.M No. 20 (1)DA/PC/79-Vol.XIV dated 22<sup>nd</sup> June, 1980, 'if the total estimated cost, as sanctioned increases by a margin of 15% or more, or if any significant variation in the nature or scope of the project was made, irrespective of whether or not it involves an increased outlay, the approval of the ECNEC/competent authority shall be obtained in the same manner as in the case of the original scheme without delay.'

Audit observed that in twelve (12) cases different formations of NHA made material deviations in the approved scope of work and incurred excessive expenditure of Rs 1,552.40 million without approval of the Authority which accorded administrative approval to these works/projects. This resulted in irregular execution of work and payment for Rs 1,552.40 million (**Annexure-A**).

Audit holds that acceptance of bid at higher rates was due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the irregularity during July-November 2015. The Authority did not reply.

In DAC meeting held on 15<sup>th</sup> January, 2016, NHA informed in case of DP. 334 that variation order was approved by NHA Executive Board and PC-I was under approval. DAC pended the para till revision of PC-I. In case of DP. 339, DAC directed NHA to submit revised reply and verification of approval of variation order. In case of DP. 411, NHA explained that quantities were enhanced as per site requirement after approval of the variation order and there was no wrong calculation which can be verified. Audit contended that the scope of the work was enhanced beyond the permissible limit. DAC directed NHA to refer the para to



PPRA for clarification regarding approval of variation order beyond permissible limit of 15% along with other PDPs of the same nature.

The compliance of the DAC's directive was not made till the finalization of this Audit Report.

Audit recommends early compliance of the DAC's directive.

#### **4.4.7 Irregular award of contracts to the defaulter/unqualified bidder - Rs 1,348.12 million**

Clause 14.3 of instructions to bidder provides that all the operators who are not depositing their due installment regularly to NHA shall not be allowed to participate in the bidding process. As per standard procedure, applications are invited from the intended bidders for pre-qualification for operation management and maintenance of toll plaza on National Highway network and subsequently bids are invited from the pre-qualified bidder and contracts are awarded to the highest evaluated bidder.

Audit noted during review of the Bid Evaluation Report of toll plazas for the year 2013-14, dated 4<sup>th</sup> June, 2013 that M/s NLC was neither pre-qualified nor Request for Proposals (RFP) document was issued to them, being defaulter firm.

Audit observed that despite non pre-qualification and non-issuance of RFP, M/s NLC was shown participated in the bidding with a single simple page and ten (10) contracts were awarded for operation and management of toll plazas on 26<sup>th</sup> June, 2013.

Audit holds that award of contract to defaulter/non pre-qualified bidder and without submission of the proper bidding document resulted in irregular award of contracts to M/s NLC for Rs 1,348.12 million **(Annexure-B)**.

Audit holds that acceptance of bid at higher rates was due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the irregular award of work in March 2015. The Authority replied that keeping in view toll collection in any adverse situation on emergency basis without any requirement of documents and fulfilling contractual formalities, being the government organization, NLC was exempted from submission of prequalification documents with the approval of competent authority.

The reply was not tenable as there was no rule regarding exemption of the NLC for submission of pre-qualification documents and bid was, therefore, required to be submitted on RFP standard bidding documents but no such documents was issued to NLC; therefore, this award stood irregular. M/s NLC was also defaulter and as per instruction to bidder it did not qualify for participation in the bidding process.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends fixing responsibility against the person at fault.  
(DP. 256)

#### **4.4.8 Excess expenditure on account of acquisition of land at higher rates than provision of PC-I - Rs 815.00 million**

PC-I of acquisition of land and resettlement to provide ROW for the Hassanabdal-Havelian-Mansehra Expressway E-35 was approved by ECNEC in April 2008. It was proposed to acquire 106 km long strip of land with the cost of Rs 2,164.00 million for roads and interchanges. The work was required to be completed within 8 months up to December 2008.

Audit noted during review of the trial balance for the month of June 2014 that a sum of Rs 2,019.00 million was paid to Land Acquisition Collector (LAC) as advance for acquiring land for Burhan to Havelian

Section for 59 km against the provision of Rs 2,164 million for 106 km. it is further added that 1<sup>st</sup> tranche of advance was released to LAC in June 2010 after 18 months over the completion period of acquisition of land due to which cost of land increased.

Audit holds that land was acquired at higher cost than approved PC-I as 93.30% of the provision exhausted for only 59 km stretch which is 55.66% of total length against the proportionate ratio of Rs 1,204.00 million with net differential cost of Rs 815.00 million over the Admn Approval/PC-I.

Non adherence to provision of Admn approval/PC-I caused excess expenditure on account of acquisition of land at higher rates of Rs 815.00 million.

Audit pointed out irregularity in March 2015. The Authority replied that PC-I for land acquisition was prepared in April 2008 based on valuation table for the year 2007. Tentative rates for acquisition of land were adopted and the land was expected to be acquired in the same year. While notifications under section 4 of Land Acquisition Act 1894 (LAA) were announced in the February 2010, then thereafter prices of land for different 44 villages were frozen (based on Awsat Yaksala for year 2009-2010). The land award was announced in 2012, hence, after lapse of five years, the awarded compensation is justified and is in accordance of LAA 1894.

The reply was not tenable because acquisition of land was delayed inordinately about 5 years led to higher cost of the land and payment made beyond the approval of the PC-I, as well 93.30% provision was exhausted against the acquisition of land for 55.56% of total length.

The matter was discussed in DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January, 2016 wherein DAC directed NHA to submit revised reply and get the relevant record verified from Audit within one week.

The compliance of DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends early compliance of DAC's directives.

(DP.111)

#### **4.4.9 Excess payment due to excessive measurement beyond X-Section PC-I Provision - Rs 792.32 million**

X-Section/PC-I for Aggregate Base Course-Class-B provides thickness/depth of 100 mm on main carriageway.

Audit noted that for the work, construction of Motorway (M-4-Extension) from Khanewal to Multan (57 KM) an item of work, 203b-Asphaltic Base Course Class-B was required to be executed with 100mm thickness as provided in PC-I for a quantity of 94,039 Cu.m.

Audit observed that the above said item was measured with a thickness/depth of 170 mm for a quantity of 152,110 Cu.m. This resulted in an excess payment of Rs 792.32 million (152,110 Cu.m – 94,039 Cu.m x Rs 14,066 per Cu.m (-) 3% rebate).

Audit holds that irregularity occurred was due to weak internal controls.

Audit pointed out excess payment in August 2015. The Authority replied that during pre-bid meeting a question was raised regarding the thickness of Asphaltic Base Course of the project. Amended drawings of Cross Section were, therefore, issued to all bidders as Annexure-III of Addendum No. 1 showing the thickness of Asphaltic Base Course as 170 mm. The work was executed as per construction drawings and the payment was also made to the Contractor accordingly.

The reply was not tenable because the work was required to be executed as per provision of the item in accordance with PC-I with 100

mm thick instead of 170 mm thick, executed later on. Significant change in scope of work requires approval of the competent forum i.e. ECNEC.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends early regularization and fixing responsibility against the person(s) responsible.

(DP.134)

**4.4.10 Undue financial aid through additional mobilization advance due to unauthorized contract amendment - Rs 708.81 million and non-recovery of markup thereon - Rs 283.52 million**

According to Clause 60.12 (a) of Conditions of Particular Application (Part-II) of project “Construction of Additional Carriageway of Indus Highway (N-55) Sehwan-Khairpur Nathan Shah-Ratodero”, an interest-free Mobilization Advance up to 10% of the Contract Price stated in the Letter of Acceptance shall be paid by the Employer to the Contractor in two equal parts upon submission by the Contractor of a Mobilization Advance Guarantee for the full amount of the Advance in the specified form from a Scheduled Bank in Pakistan acceptable to the Employer or from foreign bank counter guaranteed by local schedule bank in Pakistan.

To ensure transparency in bidding process, the procedure for making amendment in contract was stipulated in clause IB-9 (instructions to bidders) according to which the employer may amend any clause prior to the deadline for submission of bids through addenda which shall be the part of the contract. Clause 60.12 states that financial assistance shall be made to the Contractor by the Employer by adopting alternative One: Mobilization Advance shall be limited to 15% of the sum of the contract price.

Audit noted during scrutiny of accounts record of project for Audit year 2015-16, that the contractor was granted 10% of contract amount as

Mobilization Advance in accordance with the provision of the contract. Subsequently Additional Mobilization Advance equal to 05% of contract amount was also granted to the contractor amounting to Rs 708.81 million (interest free, given on 4<sup>th</sup> April, 2012 and recovered on 24<sup>th</sup> November, 2014) through post bid amendment. It is worth mentioning that M/s FWO raised the question in pre bid meeting regarding enhancement of the Mobilization Advance from 10% to 15% which was not acceded to by the NHA. As such subsequent amendment in the contract breached the sanctity of tendering as the other competitor bidders were unaware about the grant of financial assistance outside the contract through post-bid amendment. This undue financial aid outside the contract rendered the contractor to be charged markup as per prevalent bank rate.

Non-adherence to provision of contract caused unauthorized/undue financial benefit in the shape of Additional Mobilization Advance to the contractor for Rs 708.81 million and non-recovery of markup amounting to Rs 283.52 million (15% \* Rs 708.81 million\*32/12 months).

Audit holds that the unauthorized/undue financial benefit in the shape of Additional Mobilization Advance to the contractor was due to weak internal controls and inadequate oversight mechanism for enforcing conditions of contract.

Audit pointed out the irregularity in August/September 2015. The Authority replied that the additional Mobilization Advance was paid against bank guarantee for mobilization of additional resources so as to accelerate work progress.

The reply was not tenable because additional mobilization advance was granted through post bid amendment outside the contract. As request of M/s FWO regarding enhancement of the percentage from 10 to 15% of mobilization advance was not acceded to in the pre-bid meeting by the Authority, therefore, its subsequent inclusion through amendment did not only negate the sanctity of bidding/tendering but was also an undue favour to the contractor.

The matter was discussed in the DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January, 2016 wherein NHA explained that additional mobilization advance was granted in order to enhance the pace of work. Audit contended that enhancement of mobilization advance from 10% to 15% was not acceded to in the pre-bid meeting by the Authority which violated the sanctity of bidding/tendering. The Committee directed that a Fact Finding Inquiry may be conducted at Ministry level and report be submitted within a month.

The compliance of DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends fixing responsibility against the person at fault and recovery of markup at rate announced by the Finance Division.

(DP. 90)

#### **4.4.11 Undue financial aid to contractor due to grant of additional mobilization advance - Rs 862.91 million**

Standard Contract agreement does not provide for remobilization charges and reinstatement of mobilization advance already deducted.

Project Director "2<sup>nd</sup> Carriageway of Torkham-Jalalabad road project" paid a sum of Rs 862.91 million to M/s Frontier Works Organization (FWO) on account of reinstatement of already deducted mobilization advance and remobilization charges. The process adopted by NHA/Project Management was not in line with standard contract management practices. This resulted into undue financial aid to contractor for Rs 862.91 million.

Audit pointed out the irregularity in September 2015. The Authority did not reply.

The matter was discussed in DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January, 2016 wherein NHA explained that the contractor was demobilized for the completion of work. Additional mobilization/

remobilization advance was granted in the best interest of work as per decision made in the high powered Committee. DAC directed NHA to get the relevant documents/reports/minutes verified from Audit within one week.

The compliance of DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends early compliance of DAC's directives.

(DP.32)

#### **4.4.12 Irregular extension and enhancement of contract period of toll operation - Rs 650.00 million and shortfall of tax for Rs 48.31 million**

Rule 42 (c) (iv) of Public Procurement Rules, 2004 provides that a procuring agency shall only engage in direct contracting if the repeat orders do not exceed fifteen percent (15%) of the original agreement. PPRA 2 (j) provides that "repeat orders" means procurement of the same commodity from the same source without competition and includes enhancement of contracts. Clause 19.1(c) of letter of invitation provides that advance tax for the period i.e. one year shall have to be deposited by the successful bidder along with the toll revenue security, prior to signing of contract agreement as per government rules/regulations. Letter of acceptance provides the 5% advance tax for the whole contract period will be submitted in NHA account or income tax office and receipt will be submitted to NHA.

Audit noted that contract of Rohri (N-5) Toll Plaza was awarded to M/s M. Mairaj and Co. for Toll Collection vide acceptance letter dated 4<sup>th</sup> July, 2009 and toll plaza was operated by Mairaj & Co. from September 2009 to September 2011. The said contract was extended in succeeding years on annual basis from October 2011 to June 2012, financial years 2012-13 and 2013-14.

It is worth to mention that procurement of contract for aforesaid years was carried out through competitive bidding but instead of awarding



to the highest bidder this toll plaza remained in the possession of M/s Mairaj and Co. and extensions were granted on highest bid price. These extensions are termed as repeat order exceeding the limit of 15% went up to 200%, which was irregular/unjustified.

Audit further observed that as per contract agreement tax was required to be deposited in NHA account along with each monthly installment whereas operator deposited a nominal amount of tax i.e. Rs 13.17 million against due amount of Rs 61.48 million. This resulted into less deposit of Rs 48.31 million.

Non-adherence to Public Procurement Rules caused irregular award of contract for Rs 650.00 million (Rs 319 million 2012-13 + Rs 331.00 million 2013-14) and short fall of tax for Rs 48.31 million.

Audit pointed out the irregularity in March 2015. The Authority did not reply.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends that matter may be investigated and responsibility be fixed against the persons at fault.

(DP. 259)

#### **4.4.13 Irregular withdrawal/bridge financing from Road Maintenance Account - Rs 567.00 million**

As per Rule 9(3) of Roads Maintenance Account (RMA) Rules, 2003, the RMA resources shall not be withdrawn to bridge finance non-eligible expenditure or be allocated or re-appropriated for the development projects and capital works. The eligible expenditures include road maintenance, rehabilitation/improvement of existing highway network, highway safety improvement, etc.

Audit noted during review of the accounts record (paid voucher, cash book A/c No.2115, trial balance, etc.) of project “Construction of Additional Carriageway of Indus Highway (N-55) Sehwan-Khairpur Nathan Shah-Ratodero (JICA Loan PK P-55)” for Audit year 2015-16, that an amount of Rs 54.00 million was paid to WAPDA vide Voucher No. 04 dated 3<sup>rd</sup> December, 2014 on account of relocation of utilities and an amount of Rs 513 million was also transferred from FWO Account for land acquisition to LAC for the project Sehwan-Khairpur Nathan Shah-Ratodero on 30<sup>th</sup> June, 2012. Audit observed that these funds were transferred from FWO on account of adjustment of receivable from them on account of Motorway Revenue withheld by FWO. This state of affairs indicates, firstly that RMA funds were utilized towards land acquisition and secondly for utilities relocation of PSDP projects which was not admissible under rules.

Non-adherence to RMA rules caused irregular charge to NHA revenue account for Rs 567.00 million.

Audit holds that the irregular charge to NHA revenue was due to weak financial internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the irregularities in August/September 2015. The Authority replied that the said adjustment of account between NHA and FWO has been done on the directive of the PAC dated 02<sup>nd</sup> July 2012. The reconciliation statement duly signed by NHA and FWO take care of both the objected amount in the para.

The reply was not tenable as RMA rules clearly provide that RMA resources shall not be withdrawn to bridge finance non-eligible expenditure or be allocated or re-appropriated for the development projects and capital works.

The matter was discussed in the DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January, 2016 wherein Audit informed that RMA resources were withdrawn to bridge finance the capital work on account of land

acquisition and utilities relocation which was non-eligible charge to the said account. NHA conceded that these funds were transferred by the FWO from the M-2 revenue. The Committee showed displeasure for withdrawal of NHA revenue for an ineligible charge and directed that recoupment of the same be expedited.

The compliance of DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends fixing of responsibility against the person responsible.

(DP. 93)

#### **4.4.14 Unjustified award of consultancy assignments having conflict of interest - Rs 448.55 million**

Guidelines (1.11-b) on the use of Consultants provide that consulting firms or individual consultants shall not be hired for any assignment that, by its nature, may be in conflict with another assignment of the firm or individual. As an example, consulting firms or individual consultants hired to prepare engineering design for an infrastructure project shall not be engaged to prepare an independent environmental assessment for the same project, and consulting firms or individual consultants assisting a client in the privatization of public assets shall neither purchase, nor advise purchasers of, such assets. Similarly, consultants hired to prepare TOR for an assignment shall not be hired for the assignment in question.

**4.4.14.1** Audit noted that GM, P&CA, NHA procured consultancy contracts for preparation of feasibility design during the year 2014-15. A review of the RFP/ToR/Contract agreement of consultancy services as detailed below indicated that Environmental Assessment Plan was awarded to the Design consultant firms. As per afore quoted guidelines, award of consultancy contract for two different assignments created conflict of interest.

<b>Name of Contract</b>	<b>Contractor</b>	<b>Contract Amount (Rs in million)</b>
Construction services for feasibility study & detailed design of 6 lane highway from Kala Shah Kaku to Lahore Ring Road (13.5 Km)	Asif Ali & associates JV AA associates	29.91
Feasibility study and preliminary design for Muzaffarabad-Mirpur-Mangla (MMM) (N-5) Expressway (196 Km)	Zeeruk International Pvt Ltd	128.24
Feasibility & detailed design of yakmach-Kharan Road 113 KM	ACC in Associate ACE & MASCON	25.13
		<b>183.28</b>

Non-adherence to the guidelines caused conflict of interest for award of consultancy contract for Rs 183.28 million.

**4.4.14.2** Audit noted that General Manager, P&CA, NHA awarded a contract for consultancy services for design, tendering assistance and construction supervision services of Malakand Tunnel Construction Project to M/s Yooshin Engineering Corporation for an amount of US\$ 4,819,061 and PKR 212,107,528 in May 2015. A review of the ToR of the contract agreement indicated that consultant shall prepare detailed design, drawing and carry out construction supervision of the project. Cost of construction supervision was US\$ 2,652,729. Audit holds that as per standard/approved guidelines of FIDIC award of two assignments i.e. Designing & Construction Supervision, to the same firm creates a situation of conflict of interest. This resulted in irregular award of consultancy assignment.

Non-adherence to the guidelines caused conflict of interest for award of consultancy contract for US\$ 2,652,729 (equivalent Rs 265.27 million @ Rs 100=1 US\$).

Audit holds that conflict of interest in award of consultancy contract was due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the irregularity in September-October 2015. The Authority replied that the consultancy services for Malakand Tunnel Construction Project were funded by the EXIM Bank as per loan agreement signed between Economic Affairs Division (EAD) and EXIM Bank on 5<sup>th</sup> December, 2012. P&CA Section initiated the said procurement in May 2013 on receipt of TOR and through shortlisting of 3 to 5 firms out of the long list of 18 Korean Consultant Firms already approved by the EXIM Bank. The NHA Executive Board approved the award of said assignment, after detailed deliberation, in its 246<sup>th</sup> meeting held on 3<sup>rd</sup> March, 2015.

The reply was not tenable as guidelines clearly provides that consultant shall not be awarded assignment having conflict of interest whereas in instant case designing and construction supervision was awarded to the same firm which is inconsistent with the guidelines.

The matter was discussed in the DAC meeting held on 2<sup>nd</sup> February, 2016. Audit informed that as per FIDIC consultancy guidelines consultant shall not be hired for any assignment that by the nature may be in conflict with another assignment. Whereas four consultancy contracts having different assignment were awarded which had conflict of interest, as design consultant was awarded EMP and construction supervision simultaneously. The Authority explained that the consultant guidelines were applicable for the projects funded by the ADB whereas the projects in question were being financed by the GoP and Korean Exim Bank. Audit clarified that conflict of interest is defined universally by FIDIC and donor Agencies ADB, World Bank, therefore, it was required to be applicable in these cases. The matter could not be concluded in the meeting and Committee pended the Para.

Audit recommends holding of inquiry for fixing of responsibility against the persons responsible.

(DP. 200&201)

#### **4.4.15 Non-procurement of contract in approved time limit caused unjustified extra cost - Rs 323.01 million**

PC-I of work “Shaheed Benazir Bhutto Bridge over River Indus connecting Chachran Sharif with Kot Mithan” was approved by ECNEC at cost of Rs 5,886.85 million on 21<sup>st</sup> January, 2010 including the construction cost of Rs 4,599.25 million. The construction of bridge was awarded to M/s FWO in December 2010 at cost of Rs 928.69 million. The scope of work envisaged construction of two lane 1085 meter long main bridge over River Indus along with 30.59 km of approach roads, 2 guide banks having length 2,650 meters and two spurs having length of 6,000 meters. Accordingly, project implementation and procurement of contracts were to be made simultaneously in order to remain within approved cost and time as provided in the PC-I.

Audit noted that General Manager, P&CA, NHA planned to procure afore-mentioned project in 04 packages. Package I “12.24 KM approach road and canal bridge” and Package-II “construction of Main Bridge 1300 meters” were procured in October 2010 and December 2010, respectively, whereas Package-III (Construction of Shaheed Benazir Bhutto Bridge along with approach road and guide banks over River Indus linking N-5 to N-55 near Nishtar Ghat (Package-III Zahir Pir to Chachran Sharif KM 0+000 to 12+239)) & IV (Construction of River training & protection works of Shaheed Benazir Bhutto Bridge over River Indus connecting Chachran Sharrif with Kot Momin Package-IV) were procured in September 2014 and October 2014, respectively. As per implementation schedule provided in PC-I the work was to be started in April 2010 and completed in 30 months in the September 2012 as Package-III & IV even awarded in September & October 2014 after 02 years later than the stipulated completion period of the bridge. A comparative study of the approach road works indicated that contract awarded to M/s RMC in 2010 for construction of approach road 12 KM at average cost of Rs 48.49 million per KM and in 2014 the similar nature work of approach road was awarded to M/s Ch Abdul Latif at Rs 88.39 million per KM. This state of affairs is well evident that non-implementation of approved scheduled caused enhancement of cost.

Non-adherence to PC-I/Admin Approval/non-procurement of contract in timely manner caused unjustified extra cost of Rs 323.01 million.

Audit holds that unjustified extra cost was due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit took up the matter with the management in September-October 2015. The Authority did not reply.

The matter was discussed in the DAC meeting held on 2<sup>nd</sup> February, 2016. Audit informed that PC-I of the project was approved in 2010 and entire project was required to be completed within 30 months up to September 2012 but two packages of the work were even awarded in 2014 later than the completion period. A comparative study of various packages of access road indicated that due to delay award and non-adherence to time limit caused extra cost of Rs 323 million. GM P&CA explained that due to financial constraints approved time limit in the PC-I was not adhered. The matter could not be concluded despite detailed deliberation and Committee pending the Para.

Audit recommends holding of inquiry for fixing of responsibility against the persons responsible.

(DP. 206)

#### **4.4.16 Non-seeking clarification from the lowest bidder and award of work to the second lowest at higher bid price - Rs 270.83 million**

As per Rule 38 of Public Procurement Rules, 2004, the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity. Clause I-13 instruction to bidders ITB 20.1 provides that the

bidder shall prepare one original and one copy of technical and price bids. In event of any discrepancy between the original and the copies the original shall prevail. Clause I-27 instruction to bidders ITB 27.1 provides that to assist in the examination, evaluation and comparison of the technical and price bids, the Employer may at its discretion, ask any bidder for a clarification of its bid. PPRA rule 48(1&2) provides that The procuring agency shall constitute a committee comprising of odd number of persons, with proper powers and authorizations, to address the complaints of bidders that may occur prior to the entry into force of the procurement contract. Any bidder feeling aggrieved by any act of the procuring agency after the submission of his bid may lodge a written complaint concerning his grievances not later than fifteen days after the announcement of the bid evaluation report under rule 35.

Audit noted during the review of the bid evaluation report of construction of Hassanabdal-Havelian Section of E-35, ICB-E35-II Jharikas to Sarai Saleh (KM 20+400 to 39+611) that nine (09) bidders participated in the bidding wherein M/S Limak-M/s ZKB Joint Venture with the bid price of Rs 6,504.41 million stood first lowest against the engineer's estimated cost of Rs 7,385.06 million (Based on CSR-2011+15% Premium). Technical bid was opened on 30<sup>th</sup> May, 2014 and bid was opened on 16<sup>th</sup> October, 2014. As per original financial bid a same amount was written in the summary of bills and letter of price bid and there was no discrepancy found in pursuance of ITB-33.1(c).

The contract was required to be awarded to the lowest bidder as per stated rules but it is pointed out that contract was awarded to M/s China Gezhouba Group Co Ltd. (CGGC)- M/s AM Associates Joint Venture at bid price of Rs 6,775.23 million. A review of the Financial Evaluation of Bids indicated that the lowest announced bid was of M/s Limak-M/s ZKB Joint Venture for Rs 7,016.74 million by correcting arithmetic error against item No. 108(a) Bill-01.

Audit holds that summary of bill and letter of price bid had overriding effect and there was no discrepancy in the both documents and in case of any correction in the amount of one item was required



clarification to be sought from the bidder but no such attempt was found made as per record. The matter was also discussed with the P&CA Section Officers concerned wherein they responded that there was no provision in the bidding documents for seeking such clarification and bidder often submit their bid with entering incorrect rates and amounts and managed manipulation of claims after award of contract.

Audit further added that as per rules, a grievance redressal committee was required to be constituted in order to redress the complaint by the bidder, but no such committee existed at that time in the National Highway Authority for said purpose. In absence of said committee aforesaid complaint could not be lodged by the announced lowest bidder.

It is highlighted that in case a bidder is found guilty of manipulating his bid then the administration has an option to take action against the bidder such as forfeiture of bid security.

Non-seeking clarification from the lowest announced bidder led to award of work to the second lowest was caused extra burden on the public exchequer amounting to Rs 270.83 million.

Audit pointed out the irregularity in March 2015. The Authority replied that as per price bid opening sheet M/s Limak-ZKB JV was the lowest announced bidder and not the lowest evaluated bidder. The price bid evaluation report (PBER) was concurred by ADB. The acceptance committee unanimously recommended and NHA Executive Board approved the award of work to the bidder M/s CGGC-AM Associates JV at the lowest evaluated bid of Rs 6,775.23 million which is 8.26% below the engineer's estimate.

The reply was not tenable because Clause 27.1 (I-17) instruction to bidders clearly provided that clarification regarding confirmation of arithmetic error discovered by the employer shall be sought but in instant case it was not done and employer declared the lowest announced bid into 2nd lowest unilaterally without seeking consent of the bidder. In reply it was conceded that Redressal Committee was constituted in November

2014 on the direction of PPRA when bidder lodged complaint/grievance against the evaluation of the bids. The bids were opened in May and October 2014 and at that time no standing committee existed in NHA to redress the bidders' grievances.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends fixing of responsibility against the persons at fault.

(DP. 105)

**4.4.17 Unauthorized/unjustified expenditure due to change in location of works without prior approval of competent authority - Rs 318.64 million**

Rule 20 of Public Procurement Rules 2004, provides that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

Para 44 of chapter 2 of NHA Code 2005 describes that for every work, it shall be mandatory to obtain administrative and financial approval of the competent authority by the Wing concerned. Before according administrative and financial approval, the competent authority shall ensure that the work is of real necessity.

As per Para 42(i) of Chapter-2 NHA Code (Vol-I), no work project or service shall be executed without administrative approval and technical sanction having first been obtained from the authority appropriate in each and without funds being made available to meet expenditure on it.

Chapter 5 of the Code provides that any emergency work valuing over Rs 2.0 million shall be dealt with prior approval of Member (Operations)/(Construction) within the allocated budget in the approved maintenance plan (approved by Executive Board). However, in all such cases the Chairman NHA shall be informed in writing.

**4.4.17.1** Audit noted that the General Manager, National Highway Improvement Program (NHIP) Islamabad awarded an afforestation contract AP-01 (Hyderabad – Hala at km 163 to 209) to M/s Royal Business for Rs 5.99 million.

Audit observed that after award of the work, the Authority changed the original location due to construction works, establishment of graveyard, wooden stalls, stock of garbage/waste of banana trees in the median and encroachment by the locals in original location for plantation from Hyderabad-Hala Sindh Region to Okara-Lahore Section Km 1140 to 1232 of Punjab Region which was not included in the original work/PC-I. Prior approval of the competent authority that accorded approval of the original work/PC-I was not obtained.

Audit further observed that due to change in location, the contractor was provided undue financial benefits on account of extra cost on watering to plants and their maintenance cost due to comparatively less hard area than Sindh Region as the cost of contemporary contracts awarded in the Punjab Region were not kept in view. The change in location was made violating the PPRA. Change of location/scope of work resulted into unjustified expenditure of Rs 11.85 million.

**4.4.17.2** Audit noted that General Manager, National Highway Improvement Program (NHIP) Islamabad awarded an afforestation contract AP-08 (Lahore-Gujranwala) to M/s Tahir Naveed for Rs 10.43 million.

Audit observed that the Authority changed the original location from Lahore-Gujranwala Section Km 1270 to 1320 on N-5 having length of 50 Km to Motorway M-2 (from Kala Shah Kaku Interchange to Motorway) having length of 7.5 Km due to widening and construction of service road in original location for plantation. At the time of change of location, 15,000 plants were available for 50 Km whereas 45,000 were required to be planted at M-2 on 7.5 Km area, which was beyond comprehension, the new location i.e. Motorway where plantation has

already been done in past. Approval of change of location as well as variation order was required from the competent authority that accorded sanction of the original work/PC-I.

The change in location of work was unauthorized which resulted into irregular expenditure amounting to Rs 10.43 million.

Audit pointed out the irregularity in September 2015. The Authority did not reply.

The matter could not be discussed in the DAC meeting despite best efforts.

(DP. 429 & 431)

**4.4.17.3** Audit noted that NHA awarded emergency work i.e asphalt wearing course and base course on km 305 to km 313 (North Bound Carriageway) on M-2 contract No. EM-218-11 in October 2012 at bid price of Rs 37.13 million. The letter of commencement issued on 31<sup>st</sup> May, 2013 with four (04) months completion period. After one month the employer terminated the contract on 17<sup>th</sup> June, 2013. Later on the contractor asked for the relocation of the contract from M-2 to M-1 under terms and conditions of the original contract. The Authority admitted the request of contractor and asked the contractor to work on M-1 with totally changed BOQ. There was no need of any kind of work at the site under routine maintenance.

Audit holds that all the actions taken were to benefit the contractor (on his request), and it was at all not for the NHA interest. Shifting of work from M-2 to M-1 and the allocation of Annual Maintenance Plan approved for 2011-12 to incur expenditure of Rs 40.41 million (Revised contract cost Rs 42.48 million) up to the year of 2014-15 is unauthentic/unauthorized and irregular.

Audit holds that the award of work on a revised location without TS Estimate, calling of fresh tender and approval of the competent authority was unauthorized.

Audit pointed out the irregularity in August 2015. The Authority replied that the subject work was awarded on M-2, but due to administrative shift M-2 was given to M/s MORE (FWO) for modernization, operation and rehabilitation for 20 years on BOT basis. Keeping in view the requirement of site the work was shifted from M-2 at Km 305-313 to M-1 at Km 350-370 and GM (Motorways) conveyed the approval of Member (North-Zone) and date of commencement was revised as 16<sup>th</sup> March, 2015.

The reply was not tenable because it was an emergency work on M-2 which was initiated in 2011 and formalities were completed in 2013 but it was shifted to M-1 in 2014-15 on request of contractor with completely new BOQ items without competitive bidding.

Relocation of three years old work from M-2 to M-1 with new BOQ items without bidding and without taking the same in the current year maintenance plan was unauthorized/irregular.

The matter was discussed in the DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January 2016, wherein Audit informed that a contract for execution of asphalt work was procured in the year 2011 in the cover of emergency work at location km 305-313 (NBC) on M-2 which was not got executed and after expiry of 4 years it was shifted to M-1 on the request of the contractor by the Member (Ops) who was not competent in the matter because AMP was approved by the Executive Board and any alteration therein requires the approval of the said forum. The DAC showed displeasure for relocation of the work which negated the sanctity/authenticity of the TS estimate and tendering. The Committee directed that all identical cases of relocation of works included in the Annual Maintenance Plan be investigated at Ministry level with view to fixing responsibility on the person(s) at fault.

The compliance of DAC's directives was not conveyed till the finalization of this Audit Report.

(DP.366)

**4.4.17.4** During scrutiny of accounts record of General Manager (North) NHA Quetta Audit noted that originally the periodic maintenance work between Km-192 to Km-236 (PM-2013-14-BN-04) N-65 was awarded to M/s Mir Ahmed Jan Bangalzai for an amount of Rs 155.79 million vide acceptance letter No.2B/Director (RAMS)/NHA/2014/1469 dated 18<sup>th</sup> June 2014 against Engineer's estimate of Rs 142.28 million (9.50% above Engineer's Estimate). NHA Executive Board in its meeting dated 18<sup>th</sup> June 2014 accorded approval for the award of the said work. The contractor was paid 8<sup>th</sup> running bill for total value of work done of Rs 137.22 million upto 30<sup>th</sup> June, 2015.

Audit, however, observed that location of the work was changed from Km-192 to Km-236 to Km-313+800 to Km 316+600, 321+965-325, 332+575-335+500 and 339-345. These material deviations were made without approval of NHA Executive Board.

This resulted in irregular/unjustified execution of work and incurring of expenditure of Rs 137.22 million.

Audit holds that irregularity occurred due to non-adherence to the rules/ regulations and weak internal controls.

Audit pointed out the irregularity in October 2015. The Authority replied that the work was executed as per site requirements and the approval of deviations was obtained from the competent authority as per NHA Code.

The reply was not tenable because work was awarded for the site other than included in the technical estimate and tenders. This defeated the process of original estimation and tendering. The work was awarded without preparing engineer estimate and tendering in violation of PPRA Rules.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends investigation at an appropriate level for fixing responsibility for unauthorized expenditure.

(DP. 281)

**4.4.17.5** Audit noted that General Manager Sindh (North), Sukkur awarded seven (07) Routine Maintenance (RM) works on the basis of technical estimates for certain sites.

Audit observed that during execution these works were carried out at those sites which were neither included in tender documents nor in the technical estimates.

This resulted in irregular/unauthorized execution of works without calling tenders and without technical estimates for Rs 36.69 million.

Audit holds that irregularity occurred due to non-adherence to the rules/ regulations and weak internal controls.

Audit pointed out the irregularity in October 2015. The Authority replied that the Road Maintenance Contracts were awarded for repair of maintenance of the road. However, due to the worst conditions of some areas the locations were changed with the approval of the competent authority i.e. Member (South Zone).

The reply was not tenable because works were awarded for the sites other than included in the technical estimates and tenders. This defeated the process of original estimation and tendering. The works were awarded without preparing engineer estimates and without tendering in violation of PPRA Rules.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends fixing of responsibility against the person at fault.

(DP. 149)

**4.4.17.6** Audit noted that Director (RAMS) awarded contract PM-2012-13-BS-03 for periodic maintenance work between Km 235+00-260+00 and 261+00-284+00 on N-25 Balochistan – South region to M/s NK & Co. at a bid price of Rs 84.97 million. Two IPCs were paid upto September 2015 amounting to Rs 28.76 million.

Audit observed that approval of Engineer's Estimate available in the file shows that the competent authority approved estimate for the periodic maintenance work at KM 261+000 to KM 284+00 on N-25 for Rs 36.05 million, whereas, tender were also called for work at KM 235+00-260+00 with estimated cost of Rs 35.06 million in addition to the this section. Accordingly, work was awarded for both the sections. It was further observed that during execution the work was done at section 233+050 to 235+00 which was not covered under the scope of work. This resulted in irregular execution of works for Rs 84.97 million.

Audit pointed out the irregular expenditure in September 2015. The Authority did not reply.

The matter was discussed in the DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January 2016, wherein NHA explained that change of location was made as per site requirement with the approval of Member NHA, concerned. The DAC showed displeasure for relocation of the work which negated the sanctity/authenticity of the TS estimate and tendering. The Committee directed that all identical cases of relocation of works included in the AMP be investigated at Ministry level with view to fixing responsibility on the person(s) at fault.

The compliance of DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends early compliance of DAC's directives.

(DP. 22)



**4.4.17.7** General Manager (Maintenance), NHA, KPK awarded the work of Periodic Maintenance to M/s Fazal Karim & Company and M/s Abdullah Khan & Company. Director (RAMS), NHA approved extension in contracts for increased scope of work 20 km in contract No. PM-2013-14-KP-03 and 23 km in contract No. PM-2013-14-KP-09.

Audit observed that extension in the area of work of M/s Fazal Karim & Company and M/s Abdullah Khan & Company was irregular/ unauthorized because area of the contract was enhanced after bid and even without consent of the contractors. One of the contractors, M/s Abdullah Khan & Company agitated against this extension. Audit further observed that proper survey was not carried out for preparation of engineers estimate. This resulted in irregular/ unauthorized enhancement in the contract area of two Periodic Maintenance contracts for 43 km.

Audit pointed out the irregularity in September 2015. The Authority did not reply.

The matter was discussed in the DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January 2016. The Committee directed NHA to submit detailed reply.

The compliance of DAC's directives was not made till the finalization of this Audit Report.

Audit recommends early compliance of DAC's directives.

(DP.43)

#### **4.4.18 Irregular award of consultancy/contract agreements without open tendering - Rs 66.21 million**

Rule 12(2) of Public Procurement Rules 2004 provides that "all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu".

Rule-5 of ibid Rules states that whenever these rules are in conflict with an obligation or commitment of the Federal Government arising out of an international treaty or an agreement with a State or States, or any international financial institution the provisions of such international treaty or agreement shall prevail to the extent of such conflict.

SRO 719(1)/2011 dated 18<sup>th</sup> July, 2011 issued by Public Procurement Regularity Authority provides that whenever a sponsoring Ministry/Division is of the view that prospective procurements are required to be made by invoking rule-5 of Public Procurements Rules, 2004 it shall bring a case to the ECC after undertaking due consultations with the stakeholder Ministries/ Divisions/Departments etc. as prescribed in the Rules of Business, 1973. The ECC shall consider such case(s) and authorize, or not to proceed in terms of rule-5 of the Public Procurement Rules, 2004.

**4.4.18.1** Audit noted that General Manager (Sindh-South) NHA Karachi awarded originally a consultancy contract at cost of Rs 6.25 million on 19<sup>th</sup> November, 2012 for consultancy services for three bridges and additional road works on Hyderabad Bypass.

Audit observed that additional consultancy contracts for services on Right Bank Outfall Drain (RBOD) Bridge on Hyderabad Bypass was also assigned to the said consultants through Variation Order No.02 at a cost of Rs 15.48 million which is 247% of the original contract cost.

Audit holds that award of new consultancy contract through variation order instead of open tendering was violation of the Public Procurement Rules 2004. This resulted in irregular award of consultancy contract for Rs 15.48 million.

Audit holds that irregularity occurred due to weak internal controls.

Audit pointed out the irregular award of contract in September 2015. The Authority replied that the initial consultancy contract for three

bridges was awarded to M/s PEAS after open competition. Later on, fourth bridge was added as additional scope.

The reply was not tenable because additional work was awarded in violation of Public Procurement Rules.

The matter was deliberated at length in the DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January 2016, wherein Committee held that it was glaring violation of the Public Procurement Rules which may be investigated besides fixing responsibility.

The compliance of DAC's directives was not conveyed till the finalization of this Audit Report.

(DP. 12)

**4.4.18.2** Audit noted that General Manager, M-4 Faisalabad-Khanewal Project Package-1 awarded the agreement of independent land valuation study of Faisalabad-Khanewal M-4 Section-II, III to M/s NESPAK with an agreement cost of Rs 10.00 million.

Audit observed that the contract was assigned to M/s NESPAK through variation order without any competition, proper bidding in violation of PPRA Rules, 2004. This resulted into mis-procurement of consultancy services for Rs 10.00 million.

Audit pointed out the irregularity in August 2015. The Authority replied that NHA awarded the contract to M/s NESPAK for preparation of Land Acquisition and Resettlement Plan (LARP) for whole M-4 (Faisalabad - Khanewal) 184 KM in 2007. Accordingly, M/s NESPAK prepared LARP for Section 1 (Faisalabad - Gojra) 58 KM and after its approval, Loan Agreement between Government of Pakistan and ADB was signed. In accordance with the same agreement M/s NESPAK has prepared LARP for Section-2 which has now been approved by ADB and loan signing for Section-2 is expected in September 2015. As specific "independent land valuation study" was not part of original TOR of M/s

NESPAK and it was mandatory requirement of ADB to proceed further, hence, it has been added through variation in the scope of M/s NESPAK.

The reply was not tenable because no documentary evidence regarding LARP agreement was produced to Audit. Furthermore, Authority accepted that the independent valuation study was not part of original TOR of M/S NESPAK. Hence, open tenders were required to obtain competitive bids.

The matter was discussed in the DAC meeting held on 15<sup>th</sup> January, 2016, wherein DAC directed NHA to refer the case to PPRA for clarification regarding award of additional work through variation orders.

The compliance of DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends fixing of responsibility against the persons for violation of PPRA rules.

(DP. 157)

**4.4.18.3** Audit noted that contract for supply, installation and commissioning of permanent type of slow speed weigh in motion (SSWIM) Supa weigh 4000 and supply of portable weigh in motion (Checklode DP-4000) was awarded to M/s TolLink Pakistan in 2005. In October 2013 M/s TolLink initiated a proposal for supply of spare parts for the weigh stations as that version of equipment was declared obsolete and was being up-graded. NHA awarded a contract for Rs 28.82 million for supply of spare parts of these equipment without calling tenders on single source basis in the cover of PPRA Rule 42 (c), i, ii & iii.

Audit observed that these equipment were procured and last shipment arrived in January 2015, whereas as per contract this procurement was to be completed within 04 months of commencement up to end of February 2014. These equipment were inspected at TolLink head office and handed over to the M/s TolLink. These equipment contained electronic, mechanized and computerized hardware, whereas inspection

was got carried out by the Civil Engineers. The record shows that equipment was handed over to the supplier and lying in stock without installation since procurement.

It is further added that supplier informed NHA in June 2013 that these spare would not be available in near future due to up-gradation of the version and the declaring the installed version as obsolete but last shipment was found received in January 2015 about 18 months later than the said intimation rendering it a mis-statement.

Audit holds that these spares were procured without immediate requirement of NHA without assuring reasonability of rates and sorting to competition.

Non-adherence to rules caused irregular/unjustified procurement of spare parts for Rs 28.82 million.

Audit pointed out the irregular/unjustified procurement in March 2015. The Authority replied that the original equipment of permanent and mobile weigh stations were procured in May 2005 and were installed on different locations of National Highways and Motorways. To maintain the spares upon discontinuity of manufacturing of same, it was decided by NHA to procure the spares of Rs 28.82 million to keep the equipment operational upon minor defects instead of up-gradation of existing equipment at the cost of Rs 47.50 million. This decision saved Rs 18.68 million. Further, the spares were not available from any other source than the original manufacture, therefore, the procurement was done as per PPRA rule 42 (c) i, ii, iii.

The reply was not tenable as procurement was not made directly from the manufacturer but through supplier/vendor, therefore, this procurement was not made under the rule referred in the Para. Moreover, in 2013 on the information of supplier regarding discontinuation of the manufacturing of the spares this procurement was awarded to them whereas last shipment arrived in January 2015 about 18 months later than the intimation.

The matter could not be discussed in the DAC meeting despite best efforts.

(DP. 266)

**4.4.18.4** Audit noted that contract for supply of spare parts for repair/rehabilitation of 10 ETTM sites was awarded to M/s TolLink Pakistan in April 2014 with contract cost of Rs 11.91 million without calling tenders on single source basis in the cover of PPRA Rule 42 (c), i, ii & iii. The supply of whole spare parts was to be completed within 02 months from the date of commencement.

Audit observed that supply of spare parts, handing taking over of spares and inspection certificates by the concerned are not found available in the record despite expiry of one year over the award of contract which indicated that these spars were not immediately required. It is further added that contract was awarded as sole distributor, authorized dealer whereas now certain other companies are also providing the said equipment and M/s TolLink is charging higher rates due to its monopoly as evident vide General Manager Punjab-North letter dated 24<sup>th</sup> October, 2012.

Non-adherence to rules caused irregular/unjustified procurement of spare parts for Rs 11.91 million.

Audit pointed out the irregular/unjustified procurement of spare parts in March 2015. The Authority replied that the spare parts procurement were made under the general condition of main contract clause 14, from M/s TolLink Pakistan (Pvt.) Ltd. being the sole supplier under the specified period.

The reply was not tenable as procurement was not made directly from the manufacturer but through supplier/vendor, therefore, this procurement was not made under the rule referred in the Para. As regard inclusion of the clause 14 of the main contract is against the provision of the law of State.

The matter could not be discussed in the DAC meeting despite best efforts.

(DP. 267)

#### **4.4.19 Irregular execution of work for Rs 57.21 million involving overpayment due to higher rates - Rs 12.86 million**

As per Planning and Development Division, Government of Pakistan O.M No. 20 (1)DA/PC/79-Vol.XIV dated 22<sup>nd</sup> June, 1980, 'if the total estimated cost, as sanctioned increases by a margin of 15% or more, or if any significant variation in the nature or scope of the project was made, irrespective of whether or not it involves an increased outlay, the approval of the ECNEC/competent authority shall be obtained in the same manner as in the case of the original scheme without delay.'

Audit noted that General Manager (Balochistan-North) NHA Quetta paid different items of work 'Rehabilitation of Airport Road, Quetta' in excess of provision of contract agreement and Technical Estimate and Contract agreement without approval of NHA Executive Board who accorded Admn Approval and awarded the work.

Audit further observed that the rates for non-BOQ items were paid on higher side. As per CSR Pak PWD 2012, 1" (25 mm) thick cement plaster 1:4 on walls and columns etc. in basement, plinth, mezzanine and ground floor including making edges, corners, and curing etc. complete, is payable @ Rs 325.38 per sq meter whereas NHA paid the said item as non-scheduled item @ Rs 479.37 per sq. meter. Besides, three other items of CSR NHA were paid at rates provided in CSR NHA 2014 instead of at CSR 2011.

This resulted in irregular execution of work for Rs 57.21 million and overpayment to the contractor due to higher rates for Rs 12.86 million.

Audit holds that the irregularity occurred due to weak financial controls.

Audit pointed out the matter in November 2015. The Authority replied that the work was executed as per site requirements and the approval of deviations was obtained from the competent authority as per NHA Code.

The reply was not tenable because NHA Executive Board approved the cost and award of work but material deviations were made and approved by Member who was not competent to do so. The work was awarded in September 2014 on the Engineer's Estimate based on Schedule of Rate NHA 2011. But Non-BOQ items were paid on CSR 2014 instead of CSR 2011 besides item of cement plaster the rate of which was available in PPWD CSR 2012 was paid at incorrect higher market rate.

The matter was discussed in DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January 2016, wherein Audit informed that engineer estimate/BOQ was based on CSR-2011 therefore as per clause-52.1 item rates of all varied works/items were required to be derived from said CSR as it was set out in the contract, whereas in instant case the item rates were taken from the CSR-2014 and market. NHA explained that as these items were executed in 2014, therefore, the rates were taken from the prevalent CSR. The Committee directed that a comparison of CSR-2011 plus escalation with CSR 2014 may be made and rates favourable to the employer be applied.

The compliance of DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends fixing of responsibility against the person at fault and early recovery of the overpaid amount.

(DP. 331)

#### **4.4.20 Overpayment due to higher rates of non-BOQ items - Rs 67.77 million**

As per clause 52.1 of standard bidding documents all variations referred to in Clause 51 and any additions to the Contract Price which are



required to be determined in accordance with Clause 52 (for the purposes of this Clause referred to as “varied work”), shall be valued at the rates and prices set out in the Contract.

During audit of accounts of General Manager (Punjab South) NHA Multan for the year 2014-15 Audit observed that the contractor M/s Usmani Associates was paid different items of work PM-2012-13-PS-03 without provision in the Contract Agreement/Technical Estimate and Contract agreement.

Audit further observed that the rates for non-BOQ items were paid on higher side. The work was awarded in March 2014 on the Engineer’s Estimate based on NHA Schedule of Rates 2011. Non-BOQ items were paid at Schedule of Rates 2014, incorrectly. Application of higher rates resulted in an overpayment of Rs 67.77 million (**Annexure-C**).

Audit pointed out the overpayment in November 2015. The Authority replied that before initiating the V.O-2 on recommendation of Pavement Expert and General Manager Material, the contractor was not agreed with non-BOQ items on CSR-2011. The Engineer agreed with the Contractor on non-BOQ items on CSR-2014 with 5% rebate.

The reply was not tenable as the clause 52.1 clearly provides that any varied work shall be priced at the rates set out in the contract. As the engineer’s estimate was based on CSR-2011, therefore, the same was applicable rather than CSR-2014.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends early recovery of the overpaid amount.

(DP. 393)

**4.4.21 Excess payment due to excessive measurement of item of work  
- Rs 36.34 million involving overpayment due to allowing  
inadmissible extra payment - Rs 9.10 million**

SP 117.4 of contract agreement for project “Construction of Hassanabdal-Havelian Expressway (E-35) ICB-E-35-I: Burhan to Jarikas (KM 00+000 to 20+400) and ICB-E-35-II: Jarikas to Sarai Saleh (KM 20+400 to 39+611)” provides that the quantity measured against this item as shown on the drawing with respect to line and grades shall be paid for at the contract unit price for the pay items listed below and shown in the BOQ. These prices and payments shall constitute full payment and compensation for providing including hauling, processing, placing at site and compacting as specified, replenishing granular material for remedying loss of material due to traffic and sinking of granular material platform during construction due to whatever reason, including all equipment, labour, material and all other costs related to the completion of works in all respects.

On first-time completion and approval of granular material platform, only 75% payment for pay item SP 117a shall be made to the Contractor. Balance 25% payment for pay item 117a shall be made to the Contractor only when the granular material platform is no more required to serve as detour road and it has been re-worked, reinstated or replaced as directed by the Engineer’s Representative and is re-approved and ready to receive oncoming layer of embankment.

Audit noted during review of the accounts record i.e BOQ/Contract of project that item SP117a “formation of granular material platform” was provided 5,000 Cu.m @ Rs 716 per Cu.m for Rs 3.58 million for package-I & 500 Cu.m @ Rs 1,612 per Cu.m for Rs 806,000 for package-II. Audit observed that in first running bill the said item was shown measured/paid to the extent of 46,321.15 Cu.m which was 826% above the BOQ provision for package-I & 4,727 Cu.m which was 845% above the BOQ provision for package-II. It is pointed out that 100% payment was allowed to entire quantity rather than 75% as per provision of contract

specification. Besides payment for the exceeded quantity without approval of the competent forum.

Non-adherence to contract caused excess payment due to excessive measurement for Rs 36.40 million involving overpayment of Rs 9.10 million (excessive measurement for Rs 29.59 million involving overpayment of Rs 7.39 million for package-I & Rs 6.81 million involving overpayment of Rs 1.70 million for package-II).

Audit holds that excess measurement involving overpayment was due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the irregularity in September 2015. The Authority replied that to ensure the stability of embankment, the embankment of granular material platform was allowed by “The Engineer” only after satisfying himself regarding its requirement by carrying out the necessary test at site and laboratory. Furthermore, it is clarified that as per SP-117(a), 75% payment shall be made in case it is to be used as detour for subsequent activities.

The matter was discussed in the DAC meeting on 11<sup>th</sup>-12<sup>th</sup> January 2016, wherein Audit informed that item of work granular platform was measured/paid even in first IPC 845% excess over the BOQ provision prepared by the consultant. NHA explained that due to slushy area the Engineer increase the quantities of the item and variation order is under process of approval. The DAC was not satisfied with the contention of the Authority and directed that the matter be referred to the designer for clarification regarding deficient provision of the quantity of the said item and fixing of responsibility.

The compliance of DAC’s directives was not conveyed till the finalization of this Audit Report.

Audit recommends early recovery of the overpaid amount.

(DP. 101)

**4.4.22 Excess payment due to excessive measurement of quantity - Rs 27.59 million and overpayment due to non-utilization of available earth - Rs 8.08 million**

Particular Specification 108.2 (e) of contract agreement of project "construction of Hassanabdal-Havelian Expressway (E-35) ICB-E-35-I: Burhan to Jarikas (KM 00+000 to 20+400)" provides that for embankment and subgrade construction, the material shall be considered unsuitable having soil AASHTO classification group of A5, A6 & A7.

Audit noted during review of the accounts record BOQ/Contract of above project that item No. 106a "excavate unsuitable/surplus common material" was provided 98,680 Cu.m @ Rs 109 per Cu.m for Rs 10.76 million. Audit observed that in first running bill the said item was shown measured/paid to the extent of 351,833.70 Cu.m which was 257% above the BOQ provision. It is further added that material obtained from the excavation was not classified A5, A6 & A7 as no test report was found available in the record, therefore, it was required to be used in formation of embankment under item 108a whereas item 108c formation of embankment from borrow was got executed @ Rs 259 per Cu.m which was not admissible. By execution of the excessive quantity in the first running bill caused excess payment and also overpayment due to non-utilization of said material/earth in the embankment. It is worth to mention that during review of measurement of item 106 it was observed that on certain RDs cross sectional areas was measured 4 m to 16 m and entire quantity was declared unsuitable which is not feasible/practicable as 8m to 10 m depth of earth would have been suitable.

Non-adherence to contract caused execution of the excessive quantity in the first running bill involving excess payment for Rs 27.59 million and overpayment of Rs 8.08 million due to non-utilization of said material/earth in the embankment.

Audit holds that excess measurement involving overpayment was due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the irregularity in September 2015. The Authority replied that during the course of roadway excavation from KM 0+000 to 3+000, and loop 1 & 2 of flyover at RD 0+000, the roadway excavated material was jointly sampled and jointly collected samples of excavated material time to time and were sent to university of engineering and technology Taxila laboratory for ascertaining the suitability of material with regard to the use of material in the formation of embankment in accordance with the requirement of general specification.

The reply was not tenable as the top soil at the reach of 1<sup>st</sup> three kilometer of E-35 the entire quantities excavated up to the depth of 5 to 15 meter was declared un-suitable and in 1<sup>st</sup> IPC the quantity was exceeded to the extent of 257% and borrows material was utilized in the formation of embankment carrying higher cost.

The matter was discussed in DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January 2016, wherein Audit informed that on the basis of soil test report of the top soil at the reach of 1<sup>st</sup> three kilometer of E-35 the entire quantities excavated up to the depth of 5 to 15 meter was declared unsuitable and in 1<sup>st</sup> IPC the quantity exceeded to the extent of 257% and borrow material was utilized in the formation of embankment carrying higher cost. NHA explained that the matter of unsuitability of entire excavated earth is disputed with the contractor and due to which 20% quantities were withheld and the matter is under investigation. The DAC was not satisfied with the contention of the Authority, and Committee directed that the matter be referred to the designer for clarification regarding deficient provision of the quantity of the said item and fixing of responsibility.

The compliance of DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends for early recovery of the overpaid amount.

(DP. 102)

#### **4.4.23 Award of work to foreign firms having unsound JV with two different local firms**

Clause 4.3 of Section-1: Instructions to Bidders (ITB) provides that bidder shall not have a conflict of interest. All bidders found to have a conflict of interest shall be disqualified. Bidders may be considered to be in a conflict of interest with one or more parties in the bidding process if including but not limited to:

- i. They have controlling shareholders in common,
- ii. They receive or have received any direct or indirect subsidy from any of them
- iii. They have the same legal representative for purposes of bid
- iv. They have a relationship with each other
- v. A bidder participate in more than one bid in this bidding process, either individually or as a partner in a joint venture
- vi. A bidder or any affiliated entity, participated as a consultant in the preparation of the design or technical specifications of the work
- vii. A bidder was affiliated with a firm or entity that has been hired by the Employer

Clause 11.4 of ITB states that bids submitted by a JV shall include a copy of the Joint Venture Agreement entered into by all partners. Alternatively, a letter of intent to execute a Joint Venture Agreement in the event of a successful bid shall be signed by all partners and submitted with the bid, together with a copy of the proposed agreement.

Audit noted that tenders of work 'Construction of Hassanabdal - Havelian Expressway (E-35)' were invited into two packages, and nine (09) Foreign/JV participated in the bidding wherein M/s China Gezhouba Group Co Ltd. (CGGC) - M/s AM Associates Construction Company (JV) and same foreign company with JV M/s GRC company evaluated as the lowest bidders and project was awarded to said Joint Ventures.

Audit further noted that ownership of equipment and machinery was shown in the name of local contractors M/s GRC and M/s A.M Associates, whereas in technical bids M/s CGGC declared 70% share of each JV. It is further added the M/s AM Associates having PEC license Category C-B having financial limit of Rs 3,000 million whereas M/s GRC has Category C-A no limit contractor. This state of affair indicated that these JVs were fabricated only to procure contract and these JVs had no Joint Venturing with shareholding in real terms.

Audit observed that in pre-bid meeting M/s CGGC and M/s A.M Construction Associates participated in both packages as independent company instead of as JV, whereas M/s GRC did not participate in said meeting as such conflict of interest arose between M/s A.M and M/s GRC for the package-I. Joint Venture agreement was drawn on a stamp paper certified by the Notary Public and was not found registered with SECP and Stock Exchange/PEC which indicated that it was a fragile JV without having any legal registered entity.

Audit holds that in both JVs foreign contractor M/s CGGC was common and they managed joint venture for both packages with different local contractors/firms which created conflict of interest as M/s CGGC intended to procure the contract through joint venture with different local firms in the same time as such acceptance of bid by unsound JVs stood irrational.

Non-adherence to rules caused irrational technical evaluation of the bid and award of work of both packages for Rs 14.15 billion.

Audit pointed out irrational technical evaluation in March, 2015. The Authority replied that separate bidding documents were issued for both packages. Prospective bidders had the option to bid for one package or both and no restrictions were imposed. M/s CGGC-GRC JV and M/s CGGC-AM Associates JV submitted their bids separately for package I & II. As regards the issue of plant, equipment and machinery there is no compulsion regarding the ownership of equipment within the JV partner as

per bidding documents provision. JV share can be materialized in multiple ways i.e. personnel, financial resources, bifurcation of activities etc.

The reply was not tenable as joint venture is defined as an association of two or more individuals or companies engaged in solitary business enterprise for profit, therefore, it was required to get registration from any authority like PEC, SECP etc. whereas in instant case no such arrangement existed. It is further added that at site local contractors are working and no personnel/plant & equipment was deployed by the foreign lead firm China Ghezouba, despite the fact the work was awarded on the basis of technical evaluation of resources of both firms local/international. Audit stance regarding JV that JV is not working like a JV and it was established in unsound format rather than a powerfully built form and formation of a one foreign firm with two local firms for two separate packages of one project would also create conflict of interest.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends fixing of responsibility against the person at fault.

(DP. 106)

#### **4.4.24 Irregularities in BOT Contract of M-2 between NHA and M/s MORE**

The project regarding overlay and modernization of Lahore-Islamabad Motorway (M-2) was awarded to M/s Motorway Operations and Rehabilitation Engineering Company (Pvt) Ltd. (subsidiary to FWO) on BOT basis through single tender vide concession agreement dated 23<sup>rd</sup> April, 2014 with construction cost of Rs 36,825.00 million, upfront guaranteed payment of Rs 9.50 billion to NHA, staggered guaranteed payment of Rs 9.50 billion to NHA and NHA revenue share of Rs 189.72 billion during the concession period from 11<sup>th</sup> to 20<sup>th</sup> years). However, letter of support in this regard was issued to M/s FWO/Sachal/ZKB joint



venture vide letter No.2(68)-NHA/PPP/M-2/12-365 dated 12<sup>th</sup> September, 2012.

Audit observed following irregularities in the BOT Contract:

**4.4.24.1 Irregular award of work without calling of tenders -  
Rs 36,825 million**

According to Rules 20 and 21 of Public Procurement Rules, 2004, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works. Rule 12(2) of the ibid Rules, provides that all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspaper having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and other in Urdu. According to Rule 50 of ibid Rules, any violation of these rules constitutes mis-procurement.

Audit observed that the Authority awarded the work to concessionaire without advertisement/publicity for open competition for award of work.

Violation of quoted rules resulted into irregular award of work without calling of tenders for Rs 36,825 million.

Audit pointed out the irregularity in August 2015. The Authority replied that the advertisement was published for Overlay & Modernization of Motorway on Build-Operate-Transfer (BOT) basis on 12<sup>th</sup> October, 2011 in Daily Nawa-e-Waqt, Islamabad and RFPs were issued after fulfilling the requirement.

The reply was not tenable because the competitive process in accordance with the PPRA Rules was not followed.

The matter was discussed in DAC meeting held on 15<sup>th</sup> January, 2016 wherein DAC decided to refer the para to PAC for deliberation for award of work without wide publicity and open competitive bidding.

(DP. 410)

**4.4.24.2 Expected Loss due to award of contract without conducting preliminary study/commercial study/toll revenue assessment by NHA/third party and preparation of receipt estimate by NHA through proper survey - Rs 205.45 billion**

Rule 20 of Public Procurement Rules, 2004 stipulates that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works, and rule 50 of ibid rules provides that any unauthorized breach of the PPRA rules shall amount to mis-procurement.

Para 2.3 of Public Private Partnership Policy & Regulatory Framework defines the transparency, openness and fairness as:-

**Transparency** means that clear and acceptable guidelines for bidding are made available to all participants and that those guidelines are consistently followed.

**Openness** means free and open competition. The first step to maximize free and open competition is through widely-circulated public advertising, which opens-up and instills greater confidence in the process, encourages more bidders to compete for PPP projects, and results in overall lower prices for the benefit of the public.

**Fairness** means all participants are treated fairly and consistently over time and as between each other, which will further encourage capable, responsible potential to compete for PPP projects.

Para (a) regarding toll levels of the said PPP policy and regulatory framework provides that the tolls charged for use of the national highways, motorways, tunnels and bridge will be one of the key

evaluation factors used to decide which bidder is awarded the Concession. It should be noted that toll revenues estimated by NHA in its Pre-feasibility study will take into account a number of factors including cost recovery, levels of tolls on other toll roads, affordability, types of traffic and other factors relevant to the specific project.

GFR Rule -23 stipulates that every Government officer should realize fully and clearly that he would be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Audit further observed that NHA advertised the “Request for Proposals (RFP)” on 12<sup>th</sup> October, 2011 with last date of submission of the proposal/bid up to 21<sup>st</sup> January, 2012. Subsequently, the bid submission date was extended up to 6<sup>th</sup> July, 2012 through multiple extensions granted and conveyed to the offices/contractors/stakeholders concerned by the General Manager (BOT) on the time and again requests of M/s FWO. However, while intimating the extended bid submission dates to the offices/stakeholders/contractors concerned, three contractors namely M/s Sultan Mehmood & Company, M/s Maqbool Associates and M/s China State Construction Company out of six contractors, who purchased RFP/bidding documents, were ignored and intimation to other three contractors/firms who did not purchase RFP/bidding documents was also made. As far as the position regarding publishing of the same extensions/corrigendum in the leading newspapers and uploading on Authority’s and PPRA websites were concerned the produced record by PPP/BOTs section was found quite silent. It was also worth mentioning here that M/s FWO/Sachal/ZKB submitted their bid/proposal in the capacity of joint venture and obtained 86 marks out of 100 marks during evaluation of technical proposal. Subsequently, after acceptance of the proposal but prior to the execution of concession agreement M/s Sachal a member of the joint venture (having 2% share) quitted the joint venture. On exiting of the one member from joint venture re-appraisal of the

technical proposal and changing of the obtained scoring was necessary but it was not done. Under said circumstances it would be easy to ascertain that transparency, openness and fairness of tendering process was compromised causing mis-procurement of contract and leading to expected loss of Rs 205.45 billion approximate to the Authority in shape of less receipt of toll revenue during the concession period of 20 years, worked by compounding the actual toll receipt against M-2 motorway for the year 2013-14 with 22% annual increase(including 5 % annual traffic increase, 10% annual toll rates increase and 7% profit increase).

Audit noted that feasibility study, commercial study, estimation of revenue receipt and third party evaluation of revenue receipt was not carried out against M-2 project whereas before proceeding ahead for procurement it was necessary to complete the formalities to ascertain the reasonability of NHA toll share during the concession period.

Audit holds that mis-procurement of the contract and agreement with M/s MORE on lesser toll revenue share occurred due to non-adherence to the PPRA rules/PPP policy and framework and lack of financial/internal controls.

Audit pointed out loss in December, 2015. The Authority did not reply.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends fixing of responsibility against the person at fault.

(DP. 448)

#### **4.4.24.3 Non-obtaining of Performance Bond Guarantee - Rs 1,841.25 million**

As per clause 13.3(a) of Concession Agreement between National Highway Authority (NHA) and Motorway Operations & Rehabilitation Engineering (Pvt) Ltd (MORE), the concessionaire shall, on or before the

works commencement date submit to NHA a construction Performance Bond with a face amount equal to five percent (5%) of the construction costs. The construction performance bond shall answer for, and guarantee the completion of the works in accordance with this agreement. The construction performance bond shall be valid for the whole duration of the construction phase.

Audit noted that a concession agreement for overlay and modernization of M-2 (Motorway) was executed between NHA and MORE on 23<sup>rd</sup> April, 2014 for Rs 36,825 million. Audit observed that the concessionaire was required to provide a performance bond guarantee in the name of NHA @ 5% before the commencement of work. The work had been started but after lapse of 1 ½ years, the concessionaire did not provide the same to NHA. This resulted into non-obtaining of performance bond guarantee for Rs 1,841.25 million (36825x5%).

Audit pointed out the irregularity in August 2015. The Authority replied that M/s MORE started construction activity in January 2015 at site and had been asked to provide Performance Bond Guarantee to fulfill the contractual obligation, however, no response was received.

The matter was discussed in DAC meeting held on 15<sup>th</sup> January, 2016 wherein DAC directed NHA to obtain performance bond at the earliest from the contractor and recover the cost of premium for unsecured period.

The compliance of DAC's directives was not conveyed till finalization of this Audit Report.

Audit recommends earlier compliance of DAC directives besides recovery of unsecured period.

(DP. 404)

#### **4.4.24.4 Taking over of possession of Motorway Service Areas without proper handing over/taking over by the Concessionaire**

As per para 5.5 of Standard Operating Procedure for Road Maintenance Account, 2002 (NHA Code Vol-II) Road Asset Management Division (NHA) will collect and regularly update roadway inventory data like detail of roads, right of way, building lines, encroachments, hotels & motels, shops, petrol/CNG Pumps, weight stations, trees, bridges, fences, guardrail, etc. from 1<sup>st</sup> of July through 15<sup>th</sup> September every calendar year.

Audit noted that a concession agreement for overlay and modernization of M-2 (Motorway) was executed between National Highway Authority (NHA) and Motorway Operations & Rehabilitation Engineering (Pvt) Ltd (MORE) on 23<sup>rd</sup> April, 2014 for Rs 36,825 million. Audit observed that the concessionaire took over the charge of M-2 and started the work during 2014. The Authority did not maintain any type of record regarding roads and other items as per referred criteria on M-2. In the absence of proper record/inventory, no proper handing over/taking over was made by NHA and concessionaire. Further the service areas on M-2 were not required to hand over to MORE as per agreement which was also handed over to concessionaire without any documentation.

Audit pointed out the irregularity in August 2015. The Authority replied that M/s MORE started taking over of NHA assets on Motorway gradually. Motorway Service Areas (MSAs) Mosques were handed over in May 2015 after vacation of Stay Order by the Honourable Court in accordance with Concession Agreement, Schedule "C". The inventory process is still continuing.

The reply was not tenable because it was the mandatory/pre-requisite of concession agreement to prepare an inventory of all assets which were being handed over to the concessionaire in order to evaluate/assess the concession bid which was not done.

The matter was discussed in DAC meeting held on 15<sup>th</sup> January, 2016, wherein DAC directed NHA that inventory process be completed at the earliest.

The compliance of DAC's directives was not conveyed to Audit till the finalization of this Audit Report.

Audit emphasizes early compliance of DAC's directives besides earlier inventory of the assets.

(DP. 409)

**4.4.24.5 Non-recovery of extra toll revenue collected at M-2 at enhanced toll rates - Rs 529.06 million**

According to Para No.2.10 of letter of support, issued to M/s FWO/Sachal/ZKB joint venture vide letter No.2(68)-NHA/PPP/M-2/12-365 dated 12<sup>th</sup> September, 2012, the following toll rates should be applicable during construction phase at M-2, and no toll escalation should be permissible during construction phase.

<b>S. No.</b>	<b>Traffic Mix</b>	<b>Pak Rupees/KM</b>
1	Cars/Jeeps/Taxies	0.79
2	Wagons	1.32
3	Buses	1.85
4	2-Axle Trucks	2.64
5	3-Axle Trucks	3.43
6	Articulated Trucks	4.42

As per Part-II(A) of Schedule I of the Concession Agreement between NHA and MORE executed during 2014, ten percent annual Toll Escalation shall be applied from the second (2<sup>nd</sup>) operational year till the twelfth (12<sup>th</sup>) year of the concession period.

Audit noted that a concession agreement for overlay and modernization of M-2 (Motorway) was executed between NHA and MORE on 23<sup>rd</sup> April, 2014 for Rs 36,825 million. Audit observed that NHA enhanced the toll rates about 50% at motorway M-2 w.e.f 1<sup>st</sup> July,

2014 and the contractor was collecting the toll at enhanced rates accordingly whereas, during construction period of three years from December 2014 onwards, the contractor was not entitled to collect toll at enhanced rates. Due to collection of toll at revised rates the contractor enjoyed extra toll revenue approximately amounting to Rs 529.06 million.

Audit holds that non-recovery of extra toll collected by the contractor during construction period at enhanced toll rates occurred due to premature revision of toll rates at M-2 by NHA and non-pursuance of the matter with the contractor.

Audit pointed out the irregularity in August and December 2015. The Authority replied that the matter was communicated to the contractor but no response was received.

The reply was not tenable because it was contractual provision that no toll rates would be enhanced during construction period and NHA was responsible to monitor and implement these provisions being employers and public service provider.

The matter was discussed in DAC meeting held on 15<sup>th</sup> January, 2016 wherein DAC decided to refer the case to PAC for deliberation and recovery of overcharged toll collection besides penal action against the concessionaire.

The compliance of DAC's directives was not conveyed till finalization of this Audit Report .

Audit recommends compliance of DAC's directives besides recovery of overcharged toll collection and penal action against the concessionaire.

(DP. 416&450)



#### **4.4.25 Loss due to award of work at higher premium - Rs 12.15 million**

As per Planning and Development Division, Government of Pakistan O.M No. 20 (1)DA/PC/79-Vol.XIV dated 22<sup>nd</sup> June, 1980, 'if the total estimated cost, as sanctioned increases by a margin of 15% or more, or if any significant variation in the nature or scope of the project was made, irrespective of whether or not it involves an increased outlay, the approval of the ECNEC/competent authority shall be obtained in the same manner as in the case of the original scheme without delay.'

Audit noted that General Manager Maintenance (North), NHA Quetta awarded a periodic maintenance work, PM-BN-13-3001 from Km 300 to 306 (N-50) to M/s Haji Sahib Jan & Sons on 29<sup>th</sup> May, 2014 at an agreement amount of Rs 12.15 million against estimated cost of Rs 9.72 million.

Audit observed that the accepted agreement amount was 25% above the Engineer's Estimate. The revised administrative approval technical and financial sanction as required was not obtained before award of the work. Audit further observed that same nature of periodic maintenance work No.PM-2012-13-BN-01 between Km 306-332+800, Km 332+800 - 334 Km, Km 334-363+400 was awarded by NHA Headquarters on 26<sup>th</sup> March, 2014 at 29.80% below.

This resulted in irregular award of work at higher premium for Rs 12.15 million.

Audit holds that irregularity occurred due to weak internal controls.

Audit pointed out the irregularity in October 2015. The Authority replied that the work was awarded after due tendering process which was 10% above the engineer's estimate (CSR 2011 + 15%) i.e. which is the permissible limit. So no irregularity has been committed.

The reply was not tenable because the contract under observation was awarded in May 2014 at agreement amount which was 25% above the Engineer's Estimate at Regional Headquarters Quetta. Same nature of periodic maintenance work between Km 306-332+800, Km 332+800-334 Km, Km 334-363+400 on the same site was awarded by NHA Headquarters on 26<sup>th</sup> March 2014 at 29.80% below.

The matter was discussed in DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January 2016, wherein NHA explained that both works were awarded after calling tenders in pursuance of the PPRA Rules. Audit deliberated that both works were of similar nature, situated at same location and tender were called for in the same period. In the tenders invited by General Manager P&CA, eight bidders participated in the bidding and lowest bidder quoted 29.80% below whereas in the tenders called in the regional HQ only three bidders participated and contract was awarded to the bidder at 25% above despite the fact that engineer estimates was based on CSR 2011+15%. In view of this, reasonability of rates were not evaluated properly. The Chair agreed with the stance of NHA but Audit was of the view that bid was accepted beyond permissible limit of 15% and participation of the only three bidders indicated that transparency was compromised.

The compliance of the DAC's directives was not conveyed till finalization of this Audit Report.

Audit recommends fixing of responsibility against persons responsible.

(DP. 275)

#### **4.4.26 Non-compliance of DAC's directives regarding recoveries and inquiries - Rs 2,050.14 million**

Para 5 (f) of System of Financial Control and Budgeting, 2006 issued by Finance Division, Government of Pakistan provides that the Principal Accounting Officer/Additional Secretary or equivalent shall regularly hold meetings of DAC as Chairperson, with Financial/Deputy

Financial Adviser and Director General (Audit) as Members and Chief Finance and Accounts Officer as Member/Secretary to watch the processing of Audit & Inspection Reports and decide upon appropriate measures so as to aid and accelerate the process of finalization.

During the Departmental Accounts Committee meetings held during 2013-14 & 2014-15 to discuss audit paras on the accounts of National Highway Authority for the financial years 2012-13 & 2013-14, the Committee issued directives for recovery and corrective actions by holding inquiries in cases involving Rs 2,050.14 million as summarized below:

<b>Audit Year</b>	<b>No. of DPs</b>	<b>Amount of Paras (Rs in million)</b>	<b>Remarks</b>
2013-14	19	286.26	Detail in Annexure-D
2014-15	16	1,763.88	Detail in Annexure-E
<b>Total</b>	<b>35</b>	<b>2,050.14</b>	

Audit observed that NHA showed lack of interest in resolving the issue by taking required action and used delaying tactics for recovery from the contractors/responsible(s) and inquiries for fixing responsibility and taking appropriate corrective action. The compliance of DAC's directives was not conveyed despite lapse of two (2) years.

Audit holds that non-compliance of DAC's directives was due to weak internal and administrative controls.

Audit recommends early compliance of DAC's directives besides taking action against the responsible.

## Performance

### **4.4.27 Non-implementation of provision of Environmental Protection Cost in PC-I of US\$ 4.32 million - Rs 432.00 million**

This objective targeted in PC-I of Karakoram Highway (KKH) Improvement Project (Raikot to Khunjerab 335 KM) is to increase tourism in the region and the country and to improve social economic conditions of the area.

PC-I of the project was approved by ECNEC on 12<sup>th</sup> November, 2007. The work was started w.e.f 3<sup>rd</sup> July, 2008 to be completed within 48 months which was extended through 1<sup>st</sup> Extension of Time up to December 2013. Original closing date of loan provided by China Exim Bank for the project was set as 17<sup>th</sup> January, 2012 and concessional loan closing date up to 21<sup>st</sup> December, 2013 which was further extended to 30<sup>th</sup> June, 2015.

Audit noted that an amount of US\$ 4.32 million (equivalent to Pak Rupees 140.50 million) was provided in the PC-I but regarding implementation of environmental protection, the same was not utilized during the currency of the project.

Audit observed that non-utilization of funds towards environmental protection cost will impart negative impacts in this region which is going to be a heaven for tourists and socio economic development of the country. This aspect was also essential keeping in view raising traffic flow due to commencement of China Pakistan Economic Corridor.

Non-utilization of funds of US\$ 4.32 million on environmental protection cost was against the spirit of PC-I and it posed grave threat to the environment.

Audit pointed out non-utilization of funds in August 2015. The Authority did not reply.

The matter was discussed in DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January, 2016 wherein NHA explained that KKH improvement project was mostly completed within the existing alignment, however, wherever the alignment changed due to geometric improvement the EIA report submitted by M/s CRBC was strictly implemented through their own resources and the certificate was issued to CRBC by Pakistan Environmental Protection Agency (EPA) regarding the environmental implementation issues. Moreover 222 kms site drain and 1050 culverts have been newly constructed to irrigate the barren land and after completion of Attabad, the amount allocated for environment would be utilized for improvement of land postures and afforestation throughout the KKH by Afforestation Section of NHA. DAC directed NHA to evaluate the mitigating measures taken by the contractor, determine their adequacy and take appropriate actions regarding environment issues at the earliest.

Audit recommends early compliance of DAC's directives.

(DP.62)

**4.4.28 Undue burden on Authority's revenue due to delay in acquisition of land and excess acquisition than genuine requirement - Rs 352.72 million**

Para 4 of Chapter-7 of NHA Code provides that the Project Director/Consultant shall demarcate the alignment in co-ordination with the Land Acquisition Collector and his staff. To ensure accurate acquisition of required strip of land, the permanent survey mark/pucca burjis shall be fixed.

Para 13 of Chapter-7 of NHA Code provides that the timely deposit of funds in the Treasury under head "Revenue Deposit" plays a vital role, because the acquisition cases are time limited. Expiry and re-publication of notification causes financial loss due to increase in the price of land in the vicinity of the project.

PC-I for land acquisition for establishment of HRTC of land measuring 4,144 kanals and 01 marla was approved by NHA Executive Board in its 140<sup>th</sup> meeting of August 2<sup>nd</sup> & 3<sup>rd</sup>, 2006 for an estimated amount of Rs 200 million to be paid out of RMA @ Rs 50,000 per kanal. District Collector, Attock directed the LAC (NHA) Burhan to deposit the estimated cost of Rs 158.57 million into the Government Treasury, Attock. Adequate funds were not transferred to District Treasury in timely manner. The funds of Rs 171.29 million were deposited in District Treasury (Rs 100 million in December 2009 and Rs 71.29 million in March 2010 including Rs 12.72 million against damages). Consequently, District Price Assessment Committee Attock, assessed the cost of land to Rs 372.80 million in 2010. Subsequently, NHA decided to de-notify the excess land than requirement i.e. **2,176 kanals**, but DCO Attock and Board of Revenue, Punjab rejected the proposal as NHA had already taken possession of the site and constructed boundary wall thereon and deployed security guards for its protection. NHA paid additional amount of Rs 340.00 million for land acquisition vide cheque dated 10<sup>th</sup> April, 2014. The total cost of land was therefore, enhanced from Rs 158.57 million to Rs 511.29 million (Rs 171.29 million+ Rs 340 million) resulting in extra cost of Rs 352.72 million. Mutation of land in the name of NHA is not forthcoming. Funds were withdrawn from RMA (as evident from voucher) for bridge financing of the PSDP project which stood irregular in violation of the RMA Rules.

Audit took up the matter with the management in March 2015. The Authority replied that the possession of land was taken over by the NHA on 22<sup>nd</sup> June, 2010. The Secretary (Settlement) Board of Revenue (BOR) Punjab Lahore conveyed the final approval of estimated cost of Rs 371.00 million in March 2011. As the rates of the land was increased manifold by the BOR Punjab, it was decided that land under acquisition should be reduced and acquired within the limits of available funds of Rs 127.00 million and land which is no more required by NHA shall be de-notified. As per said decision the draft of de-notification of excess land measuring 2,176 kanal 17 marla was submitted to District Collector, Attock. In August 2013 it was decided that total land 4,144 kanal 01 marla may be acquired as per notification and case may be presented to NHA Executive

Board. The Executive Board approved in 231<sup>st</sup> meeting dated 17<sup>th</sup> December, 2013 the required estimated amount of Rs 340.00 million for payment out of RMA. Mutation of land of village Pathargarh (901 kanal 01 marla) has been completed and efforts are being made for mutation of remaining land.

The reply was not tenable because demarcation of the land was not made in accordance with the actual need basis eventually 1<sup>st</sup> notification under section 4 was issued in September 2006 for 9,188 kanals 6 marlas by the District Revenue Officer which was subsequently reduced to 4,150 kanals in February 2007. When the assessment cost of land was enhanced by the District Price Assessment Committee than the original notification NHA agreed to acquire land only 901 kanals and requested for de-notification of the balance 3,249 kanals. This state of affair is well evident of that the acquisition of land was not properly planned and the process was not initiated on actual need basis. NHA completed transfer of funds in Treasury in March 2010, six months later than the directions of the District Collector. Physical possession of land was shown taken over in June 2010 whereas as per LAC letter the possession remained with the land owners/affectees wherein they cultivated the crops in land of NHA illegally and boundary wall in the peripheral area of the acquired land could not be completed up till now which means that refusal of de-notification on the basis of possession by NHA was uncalled for by district management which was required to be pursued at higher level in order to save the authority this extra burden. A review of the petition by land owners indicated that petitioner was not resident of the said area. This state of affair evident that enhancement in the earlier notified assessed cost and non-de-notification was managed by someone in their own interest and NHA could not safeguard its interest.

The matter could not be discussed in DAC meeting despite best efforts by Audit.

Audit recommends holding of an inquiry for fixing of responsibility action against the persons responsible.

(DP. 258)

#### **4.4.29 Inordinate delay in the pre-requisite arrangements caused non-availing of grant - Rs 250.00 million**

Appendix-C (Annex-II) of PC-I of Highway Research and Training Centre (HRTC) provides that (a) equipment/machinery for research and testing purpose for Rs 20.00 million was to be provided by JICA and (b) equipment/machinery for research and testing purpose for an amount of Rs 250.00 million was to be provided by Japanese Ministry of Foreign Affairs as Grant by donor agencies under the HRTC project.

Audit noted that the PC-I for “establishment of Highway Research and Training Centre (HRTC)” was prepared in August 2008 for total capital cost of Rs 835.13 million and approved in September 2009 by CDWP (with FEC Rs 566.84 million as grant assistance from Govt. of Japan). Phasing of capital cost provided in the PC-I provides completion period of the project from 2008-09 to 2012-13. The equipment/machinery was to be provided by the development partner up to 2010-11 in 3 phases (in 2008-09 for Rs 119.21 million, in 2009-10 for Rs 190.74 million and in the year 2010-11 for Rs 166.89 million).

A review of the inventory of lab equipment and machinery provided by the management of HRTC indicated that the machinery and equipment through NHIP contracts and donation by the JICA was installed but no machinery & equipment as committed by Japanese Ministry of Foreign Affairs was found received at HRTC. When the matter was discussed with the management they responded that machinery in question was to be provided by the Japanese Ministry for preparation of test tracks but due to non-preparation of the test tracks within the approved timelines of PC-I/project the donor backed out from its commitment/donation.

Non-adherence to PC-I and delay in the pre-requisite arrangements for receipt of the donation caused non-availing of grant for Rs 250.00 million which would become future asset of the Authority.

Audit pointed out non-availing of grant in April 2015. The Authority did not reply.



The matter was discussed in the DAC meeting held on 2<sup>nd</sup> February, 2016. Audit informed that equipment, machinery valuing Rs 250 million was to be provided by Japanese Ministry of Foreign Affairs up to 2010-11 but due to non-preparation of test tracks it could not be materialized and grant lapsed. Member Planning explained that this grant was provided through counter value fund and Embassy of Japan intimated that it is utilized for natural disaster in the event of earthquake, flood. Audit reiterated that this provision was made in the PC-I and grant was lapsed only due to non-preparation of test tracks within approved timeline. The Committee directed that efforts made by the NHA for utilization of the grant be shared with Audit.

The compliance of DAC's directive was not made till finalization of this Audit Report.

Audit recommends for early compliance of DAC's directive.

(DP. 122)

### **Internal Control Weaknesses**

#### **4.4.30 Loss of revenue due to non-recovery of NOC/Right of way charges from NHA ROW in Punjab South Region - Rs 2,937.00 million**

As per Rule 3(2) of NHA Roads Maintenance Account Rules, 2003, all revenues from road users accruing to the NHA, from the tolls on roads and bridges, net of collection costs, shall be expeditiously transferred into the Roads Maintenance Account.

As per Para 10 of Chapter III (General Regulations, Provisions) of Regulatory Framework and Standard Operating Procedures for Preservation and Commercialization of Right of Way (NHA Code Volume-II, 2005), Deputy Director (Maintenance) or Corridor Management Contractors shall ensure to collect the annual fees/ground rental charges from the owners of commercial entities/amenities and different Government/Semi Government agencies owning the utilities

within the due date. In case of non-payment, within fifteen (15) days of the due date, notices will be issued for payment of annual lease or ground rental charges or fee with a copy endorsed to RAMD, Islamabad and Regional General Managers.

Audit noted that 7,781 users of NHA ROW are running their business without NOC and payment of ROW charges/NHA dues in Punjab South Region. Among the defaulters are the owners of CNG Filling Stations, Petrol Pumps, Restaurants, Shops, Kiosks, Schools, Bricks Kilns, and Hospitals/Clinics etc.

Audit observed that these users had been operating their business for many years. NHA has, therefore, been deprived of a revenue of Rs 2,937.00 million (calculated for five years from 2010-11 to 2014-15).

Audit pointed out the non-recovery in November 2015. The Authority replied that rental charges are applicable/due against a particular amenity only when, one gets NOC from NHA. Without being registered in the tax net of NHA (by getting NOC), annual rental cannot not fixed/calculated.

The reply was not tenable as per approved rule rental charges are chargeable to all existing amenities falling within ROW and a comprehensive inventory was required to be prepared by the regional General Managers in order to charge the rental/approach charges instead of at the time of NOC issuance.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends fixing of responsibility against the person at fault.

(DP. 390)

#### **4.4.31 Non-recovery of cost and rent of plant and machinery not returned by the contractors - Rs 2,031.44 million**

The Contract for completion of balance works of Islamabad-Peshawar Motorway (M-1) Project was awarded to M/s Pakistan Motorway Contractors Joint Venture (PMC JV) vide acceptance letter No Dir(Const)/NHA/02/202 dated 20<sup>th</sup> November, 2002 for an agreement amount of Rs 11,875.98 million. The work was completed by the contractor on 30<sup>th</sup> October, 2007.

As per clause SP.47 of the contract agreement for the above work, plant, equipment, spare parts, material in stores and at site, camps and allied facilities available with Employer, shall be utilized by the Contractor for the purpose of completing the works.

The above said items and facilities shall be progressively returned by the Contractor to the Employer, excluding the consumable materials in stores, as and when these become redundant at the option of the Contractor within the Time for Completion. After the expiry of the Time for Completion the Employer will have the option to withdraw these items and facilities in part or in whole or charge rental cost to the Contractor on per day basis, in accordance with the prevailing market rates, to be determined by the Engineer, in accordance with Clause 52 of the Conditions of Contract. Such cost shall be recovered from Contractor's payment certificates. For any missing or broken items, not replaced by the Contractor, deduction shall be effected commensurate to the replacement/repair cost of such items, to be determined by the Engineer, based on prevailing market prices.

Scrutiny of the accounts record of the project disclosed that as per correspondence of the Engineer 61 pieces of plant and machinery which were handed over to M/s PMC-JV and 03 (three) to M/s Husnain Construction Ltd were found missing and were not handed over to NHA after completion of work. Audit observed that cost of these items and rent for the period after completion of work upto 30<sup>th</sup> June, 2014 on current market rates as per contract clause has not been recovered from the

contractors. This resulted in non-recovery of Rs 2,031.44 million (Rs 1,815.93 million on account of rent and Rs 215.51 million as cost of equipment).

Audit holds that irregularity occurred due to weak financial and administrative controls.

Audit pointed out the matter in August 2014. The Authority did not reply.

The matter was discussed in DAC meeting held on 20<sup>th</sup>-21<sup>st</sup> November, 2014 wherein DAC directed Mr. Naveed Iqbal Walah, General Manager (Construction Punjab-South) to conduct Fact Finding Inquiry in the matter and submit report to Ministry of Communications and Audit within one month.

The compliance of the DAC's directives was not conveyed till finalization of this Audit Report.

Audit recommends fixing of responsibility besides early retrieval of machinery and recovery of rent for the entire period the machinery remained with the contractors.

(DP. 84/2014-15)

#### **4.4.32 Non-award of works under risk & cost of the defaulting contractors - Rs 1,630.69 million**

According to Clause 63.1 of the contract agreement if, the Contractor is deemed by law or has an execution levied on his goods, or Contract, if the Engineer certifies to the Employer, with a copy to the Contractor, that, in his opinion, the Contractor:

- (a) has repudiated the Contract, or
- (b) without reasonable excuse has failed
  - (i) to commence the Works in accordance with Sub-Clause 41.1,

- (ii) to proceed with the Works, or any Section thereof, within 28 days after receiving notice pursuant to Sub-Clause 46.1,
- (c) has failed to comply with a notice issued pursuant to Sub-Clause 37.4 or an instruction issued pursuant to Sub-Clause 39.1 within 28 days after having received it
- (d) despite previous warning from the Engineer, in writing, is otherwise persistently or flagrantly neglecting to comply with any of his obligations under the Contract, or
- (e) has contravened Sub-Clause 4.1,

Then the Employer may, after giving 14 days' notice to the Contractor, enter upon the Site and the Works and terminate the employment of the Contractor without thereby releasing the Contractor from any of his obligations or liabilities under the Contract, or affecting the rights and authorities conferred on the Employer or the Engineer by the contract, and may himself complete the works or may employ any other contractor to complete the works. The Employer or such other contractor may use for such completion so much of the contractor's equipment, temporary works and materials as he or they may think proper.

**4.4.32.1** Audit noted that the work "Construction of Shaheed Benazir Bhutto Bridge over River Indus with guide banks linking N-5 with N-55 near Nishtar Ghat Package-3: Approach road from Zahir Pir to Chachran Sharif" was awarded to M/s RMC and agreement was signed on 14<sup>th</sup> October, 2010 with completion period of nine (09) months. The commencement of the project was delayed due to pending Model Study Report which was received in NHA on 25<sup>th</sup> January, 2012. Audit further noted that the Contractor could not complete the work due to land acquisition, realignment of the road and delay in payments by NHA. Due to lapse on the part of the NHA, the Contractor could not complete the work, therefore, he was granted extension in completion time upto 31<sup>st</sup> October, 2013.

Audit observed that due to failure of the Contractor to complete the work in extended period, a notice of Termination of Contract under

agreement clause 63.1 was issued on 18<sup>th</sup> November, 2014. The Contractor instead of resuming the work, de-mobilized from the site of the work. The Contractor could only show physical progress of 48.031% upto June, 2015 and was lagging behind 51.969%. Despite issuance of several notices to the Contractor to start the work, the Contractor completely suspended the work in November 2013. NHA neither terminated the original contract nor awarded the work to some other contractor on risk and cost of the defaulting contractor. Difference of cost worth Rs 477.57 (Revised Contract Cost Rs 746.44 million (-) payments released Rs 268.87 million) was recoverable. This resulted in delay in termination of contract, award of work to new contractor and recovery of risk & cost charges amounting to Rs 477.57 million.

Audit holds that the contract was not terminated timely due to weak internal and financial controls.

Audit pointed out the non-award of work in September 2015. The Authority replied that the contract has been terminated on 20<sup>th</sup> August, 2015 and the contractor has been instructed to appoint his staff for joint measurement with consultant. After the re-measurement the contract will be re-tendered at contractor risk and cost. In reply Authority conceded that work would be awarded at the risk and cost of contractor.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends fixing of responsibility against the person at fault.

(DP. 77)

**4.4.32.2** Audit noted that the work “Construction of Sultan Bahoo Bridge over River Chenab (Const. of J-Spur on Garh Maharaja side) Package-V” was awarded to M/s Chaudhary Construction Company (Pvt.) Ltd. at agreement cost of Rs 204.00 million on 12<sup>th</sup> June, 2013 and was to be completed upto 8<sup>th</sup> March, 2014. The contractor has been paid a sum of Rs 34.68 million against work done. Audit further noted that the

commencement of the project was delayed due to conducting Model Study Report and delay in land acquisition.

Audit observed that due to failure of the NHA to hand over land to the Contractor, extension in time limit of completion upto 30<sup>th</sup> October, 2015 has been recommended. But despite extension, the contractor could only achieve progress of 14.15% against planned progress of 57.95% upto June, 2015. But the management neither imposed liquidated damages on the Contractor nor has notice of Termination of contract under Clause 63.1 been issued due to lapse on the part of the Contractor for execution of the balance work at the risk and cost of the Contractor. This resulted in mismanagement in execution of work and delay in termination of contract, award of work to new contractor and recovery of risk and cost charges amounting to Rs 169.32 million.

Audit holds that the contract was not terminated due to weak internal and financial controls.

Audit pointed out non-award of work in September 2015. The Authority replied that the construction of J-Spur on Garh Maharaja Side (Package-V) was awarded to M/s Choudhry Const. Company with date of commencement as 12<sup>th</sup> June, 2013, but contractor could not commence the project due to delay in land acquisition. In view of failure of contractor to improve the progress of work, the final notice under Clause 46.1 has been issued by the Engineer. In case of non-compliance on part of contractor, action would be taken by the Employer under relevant conditions of contract.

The reply was not tenable because the contractor failed to complete the work despite grant of extension in time which rendered him to be penalized as per provision of contract, imposition of LD charges and termination of contract.

(DP. 85)

**4.4.32.3** Audit noted that the work “Rehabilitation/Up-gradation of Jalalpur Pirwala-Uch Sharif Section of Shujjabad-Tarenda Muhammad

Panah Road (Package-III) District Multan (Km 20+200 to 46+810)” was awarded to M/s Saadullah Khan Brothers at agreement cost of Rs 1,611.90 million on 3<sup>rd</sup> December, 2009 which was to be completed upto 31<sup>st</sup> December, 2013 (extended period). The contractor has been paid a sum of Rs 788.21 million against work done upto 13<sup>th</sup> IPC. Audit further noted that the commencement of the project was delayed due to conducting Model Study Report and delay in land acquisition.

Audit observed that due to failure of the NHA to hand over land to the Contractor, extension in time limit of completion upto 30<sup>th</sup> June, 2015 has been recommended. But despite extension, the contractor could only achieve progress of 58 % against planned progress of 100 % upto June, 2015. But the management neither imposed liquidated damages on the Contractor nor has notice of Termination of contract under Clause 63.1 been issued due to lapse on the part of the Contractor for execution of the balance work at the risk and cost of the Contractor. This resulted in mismanagement in execution of work and delay in termination of contract, award of work to new contractor and recovery of risk and cost charges amounting to Rs 823.69 million (1,611.90 – 788.21).

Audit holds that the contract was not terminated due to weak internal and financial controls.

Audit pointed out the non-award of work on risk and cost of the defaulting contractor in September 2015. The Authority replied that the delay claimed by the contractor was about 730 days and the Engineer recommended 350 days in EOT-1. The case of EOT-1 remained under deliberation/discussion in NHA HQ for 23 months and at last only 60 days’ time approved instead of recommended days. As per contract agreement provision of allocations and arrangement of funds is responsibility of Executing Agencies. Keeping in view of above the Engineer did not recommend the termination of contract and execution of balance work on risk and cost of the contractor.

The reply was not tenable because the contractor failed to complete the work despite grant of extension in time which rendered him to be



penalized as per provision of contract, imposition of LD charges and termination of contract.

(DP. 87)

**4.4.32.4** Audit noted that the work “Construction of Road from Khad Factory to Pull Khadal (Package-I), Multan” was awarded to M/s Abdullah Khan & Co. at agreement cost of Rs 211.42 million on 03<sup>rd</sup> October, 2012 and was to be completed upto 30<sup>th</sup> June, 2013 which was extended upto 31<sup>st</sup> October, 2014 (EOT-I under process at NHA HQ). The contractor has been paid Rs 51.30 million against work done. Audit further noted that the commencement of the project was delayed due to delay in land acquisition.

Audit observed that due to failure of the NHA to hand over land to the Contractor, extension in time limit of completion upto 31<sup>st</sup> October, 2014 has been recommended. But despite extension, the contractor could only achieve progress of 24.61% against planned progress of 97.80% upto September, 2014. But the management neither imposed liquidated damages on the contractor nor has notice of termination of contract under Clause 63.1 been issued due to lapse on the part of the contractor for execution of the balance work at the risk and cost of the contractor. This resulted in mismanagement in execution of work and delay in termination of contract, award of work to new contractor and recovery of risk & cost charges amounting to Rs 160.11 million (211.42-51.31).

Audit holds that the contract was not terminated due to weak internal and financial controls.

Audit pointed out non-award of work on risk and cost of the defaulting contractor in September 2015. The Authority replied that PC-I for Construction of metalled road (missing link) from Pul khadal to NFC Khad Factory (LMQ road) via abandoned canal (23.00 km) was approved in November 2011 with the cost of Rs 809.43 million and work was to be completed during the period 3<sup>rd</sup> October, 2012 to 30<sup>th</sup> June, 2013. But due to non-finalization of the design and alignment of the road the work could

not be completed. The Chairman NHA has instructed to completely stop the work on 16<sup>th</sup> January, 2015 in progress review meeting held at Lahore.

The reply was not tenable as the work was started without demarcation of the alignment and preparation of detailed design. Abandonment of the work would result I wastage of the entire expenditure incurred thereon.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends fixing of responsibility against the person at fault.

(DP. 88)

**4.4.33 Loss of revenue due to short collection of toll than reserve price and non-operation of newly established toll plazas - Rs 1,128.78 million**

The Section 10 (2) (vii) of Chapter-III of NHA Act, 1991 (as amended 2001) empowers NHA to levy, collect or cause to be collected tolls on National Highways, strategic roads and such other roads as may be entrusted to it and bridges thereon.

Para-12-b Chapter Eleven of NHA Code (Vol-I) provides that toll shall be collected through an Operation and Management (O&M) contractor procured under Public Procurement Rules/Road Maintenance Accounts Rules as a service contract or as a maximum guaranteed bid. Clause 13.1 subject to Clause 14, the Employer will award the contract to the bidder whose bid has been determined to be substantially responsive to the bidding documents and who has offered the highest evaluated Net Guaranteed Revenue per year to the Employer.

**4.4.33.1** Audit noted that eight (8) new toll plazas were established on NHA network. Tender for invitation of bids from the pre-qualified bidders were called in November 2013 and toll collection rights were awarded to

the highest bidders in December 2013. As per reserve and quoted bid price authority was to earn Rs 802.23 million per annum after award of said toll plazas and Rs 401.11 million for the period of six months.

Audit observed during review of Receipt Statement prepared by Revenue Receipt Section (Finance Wing) that an amount of Rs 57.65 million was received in NHA Account for a period of six (6) months (January 2014 to June 2014) leaving a deficient revenue of Rs 372.26 million (Rs 401.11 million – Rs 57.65 million).

Non-adherence to rule and non-operation of the newly established toll plazas caused a loss of revenue of Rs 372.26 million.

Audit pointed out the loss of revenue in March 2015. The Authority replied that no financial loss was occurred during financial year 2013-14 and justification was provided.

The reply was not tenable because NHA could not earn revenue as per reserve and quoted bid price due to mishandling, ill-planning and Authority sustained a loss of Rs 372.26 million.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends making the loss good and fixing of responsibility against the person at fault

(DP. 250)

**4.4.33.2** Audit noted that 3 toll plazas of D. I. Khan -I (N-55), D.I. Khan-II (N-50) and Hyderabad (M-9) were handed over to M/s NLC for operation and management on interim basis without calling tenders for achievement of the highest competitive bidding in favour of NHA.

Audit observed that an amount of Rs 182.65 million was shown received on account of Toll Revenue for fiscal year 2013-14.

Audit holds that an estimated revenue of Rs 604.74 million was likely to be generated per annum as per traffic count data whereas only Rs 182.66 million was deposited by M/s NLC during the year 2013-14.

Non-adherence to rules and non-award of toll plaza through competitive bidding caused loss of revenue Rs 422.08 million (Rs 604.74 million – Rs 182.66 million).

Audit pointed out loss of revenue in March 2015. The Authority replied that toll collection was to be started for the first time after completion of toll plaza. However, prior to award of regular contract for toll collection through competitive bidding, on interim basis toll collection was assigned to M/s NLC in order to control the law and order situation due to peculiar tribal environment in the said area, non-existence of toll plaza building and non-paying toll culture for the last 50 years. Operations of this toll plaza by NLC were purely on temporary basis to promote tolling culture by NLC and to make the commuters familiar with payment of toll tax.

The reply was not tenable as toll collection was started on national highways in 1999-2000 and law & order situation of the D.I.Khan was not so worst which necessitated to hand over the toll plazas to NLC on law and order situation and culture promotion basis. The Authority has not taken Audit observation seriously as no fact and figure were offered even they could not justify the award of work without tendering.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends making the loss good and fixing of responsibility against the person at fault

(DP. 251)

**4.4.33.3** Audit noted that 5 contracts of Toll Plazas were awarded to O&M contractors for toll collection for the period 1<sup>st</sup> July, 2013 to 30<sup>th</sup> June, 2014 for one year at quoted net guaranteed bid value of Rs 687.35 million

per annum with monthly toll revenue of Rs 55.51 million. But receipt of toll collection during the year 2013-14 remained at the level of Rs 432.25 million as evident from Receipt Statement prepared by Revenue Receipt Section (Finance Wing). The revenue earned for fiscal year 2013-14 was found short/deficient of Rs 255.10 million than quoted bid price.

It is worth to mention that O&M contractors remitted less amount against their advance monthly guaranteed revenue due to which Regional GMs took over the charge and operated said toll plazas during the financial year and deposited Rs 116.00 million against the quoted bid price of Rs 130.22 million with a deficit of Rs 14.39 million.

Non-adherence to contract and non-depositing of monthly guaranteed revenue, NHA sustained a loss of Rs 269.49 million on account of short receipt (255.10+14.39).

Audit pointed out loss of revenue in March 2015. The Authority replied that Hub Toll Plaza was awarded to M/s Zafar Mashwani at Net Guaranteed bid amount of Rs 130.10 million through open competitive bidding process for financial year 2013-14, which was subsequently annulled and his bid security was forfeited. The Operation and Management of Islamabad-Muzaffarabad Dual Carriageway toll plaza was awarded to M/s Speed Inc. for the year ending 30<sup>th</sup> June, 2014 against Net Guaranteed Bid value of Rs 72.16 million. Two installments were paid regularly for two months after commencement of O&M of toll plaza. The matter was taken up for encashment of bank guarantee but the contractor obtained stay order from the court and case was pending. Contract of Fazilpur (N-5) toll plaza was awarded to M/s M.A Traders in July 2013 at net bid guaranteed amount of Rs 73 million per annum. The contractor deposited installment of Rs 7.8 million for the month of July, 2013 & August, 2013 instead of Rs 12.16 million and did not deposit an amount for the month of September, October 2013. NHA took over the toll plaza through Regional General Manager concerned and collected the revenue from November, 2013 to March, 2014 of amount Rs 19.0 million which showed average revenue of Rs 3.80 million per month which is although without any tax, profit and O&M charges. The Operation and

Management of Sohrab Ghot (Lyari Expressway) Toll Plaza was awarded to M/s S.B Builders against Net Guaranteed bid of Rs 69.00 million for the year ending 30<sup>th</sup> June, 2014. After the commencement of Toll Plaza, the contractor defaulted. Consequent to the above facts the projected revenue could not be achieved.

The reply was not tenable because NHA could not earn revenue as per reserve and quoted bid price due to mishandling, ill-planning and Authority sustained a loss for Rs 269.48 million.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends making the loss good and fixing of responsibility against the person at fault.

(DP. 252)

**4.4.33.4** Audit noted that contract of Rohri (N-5) Toll Plaza was awarded to M/s M. Mairaj and Co. for Toll Collection for the period 1<sup>st</sup> July, 2012 to 30<sup>th</sup> June, 2013 for one year at net guaranteed bid value of Rs 313.60 million per annum with monthly toll revenue of Rs 26.13 million against reserved price of Rs 340.00 million given in Bid Evaluation Report as determined by the Committee.

Audit further noted during review of receipt statement prepared by Revenue Receipt Section (Finance Wing) of toll collection during the year 2013-14, that Rs 275.05 million were earned for fiscal year 2013-14 with short/deficit of Rs 64.95 million than reserve price.

It is worth to mention that M/s M. Mairaj & Co. remitted a sum of Rs 191.98 million against their advance monthly guaranteed revenue of Rs 209.05 million from July 2013 to February 2014. In the month of April 2014 General Manager Sindh-North took over the charge and operated toll plaza for 3 months from April 2014 to June 2014 and deposited Rs 83.07 million against the reserve price of Rs 84.999 million (three months). It is further added that M/s Mairaj & Co. in response to notice of non-

depositing of monthly revenue submitted a complaint wherein they alleged that since September 2013 the Rohri Toll Plaza is being operated by the unauthorized persons and they remitted installment in the name of company through fake signatures. It is also evident from the bank drafts that from October to onward banker was changed as M/s Mairaj & Co. was remitting bank draft through Silk Bank whereas afterward installments were remitted through MCB.

Audit holds that the matter requires investigation at higher level with the view to fix responsibility for unauthorized operation of the toll plaza and short remittance of the revenue. Non-adherence to provision of contract and fix reserve price NHA sustained loss of Rs 64.95 million on account of short receipt (Rs 340 million – Rs 275.05 million).

Audit pointed out the loss in March 2015. The Authority did not reply.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends fixing of responsibility against the person at fault.

(DP. 257)

#### **4.4.34 Overpayments on account of price escalation - Rs 1,123.26 million**

According to Clause 70.1 of contract agreement (FIDIC based), the amounts payable to the Contractor shall be adjusted in respect of the rise or fall in the cost of labour, materials and other inputs to the works, as prescribed in the adjustment formula.

As per Para B-1 of Part-I (Procedure) of Standard Procedure and Formula for Price Adjustment, each of the cost elements, having cost impact of five (05) percent or higher can be selected for adjustment. While

computing Price Adjustment un-skilled labour was the representative cost element for all types of labour, etc.

As per para 5 of Standard Procedure and Formula for Price Adjustment, except labour and POL, if any other adjustable item is not used in a particular billing period then the ratio of current date price and base date price for that particular adjustable item(s) shall be considered as one.

As per Part-2 of the procedure the base date and Current date prices of the specified elements shall be obtained from the sources specified in the contract.

According to Clause 13.8 of contract agreement, no price adjustment is to be applied to work valued on the basis of cost or current prices.

Clause 52.1 of condition of contract Part-II, of the project “Rehabilitation of Mansehra-Naran-Jalkhad-Chillas Road (N-15) NCB-05 Package-II” provides that no escalation on account of material or labour wages shall be allowed on the valuation of variation.

During audit scrutiny of accounts record of different formations and projects being executed by NHA, Audit noted that price escalation payments were made to the contractors.

Audit observed that overpayments of Rs 1,123.26 million were made to the contractors on account of price escalation (**Annexure-F**) as detailed below:

- i. Price escalation of Rs 469.40 million was paid on account of materials having cost impact/weightage less than 5% in seven (07) cases in violation of standard procedure and formula for price adjustment.



- ii. Price escalation of Rs 391.47 million was allowed on non-BOQ/market rate items in violation of contract agreement in four (04) cases.
- iii. Price escalation of Rs 76.30 million was paid on incorrect value of work done including water charges in one case.
- iv. Price escalation of Rs 73.54 million was allowed on skilled labour in violation of contract agreement and standard procedure in one case.
- v. Price escalation of Rs 51.75 million was allowed on material not consumed in work during the month of interim payment certificate in violation of standard procedure in one case.
- vi. Price escalation of Rs 26.55 million was paid on the basis of incorrect/unauthentic rates and unauthorized revision of factor-C through post-bid amendment.
- vii. Price escalation of Rs 21.15 million was paid by applying incorrect/unauthentic rates in two (02) cases.
- viii. Price escalation of Rs 13.10 million was allowed on provisional sum/Bill No. 7 items based on market rates and temporary works in two (02) cases.

Audit pointed out overpayments during March 2015 to November 2015. The Authority replied that the payments of price escalations were made as per weightages and provisions of the contract agreements.

The replies were not tenable because overpayments were made due to violation of standard procedure and formula of price adjustments of Pakistan Engineering Council.

The matter was discussed in DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January 2016, wherein Audit contended that escalation was allowed contrary to the provision of the PEC standard procedure on the material having cost elements lesser than 5%, material not used in the currency of

the respective IPC, on provisional sums & general items and temporary works. NHA informed that escalation was allowed as per provision of contract. In case of DP. 175, NHA explained that foot note of the appendix-C provides that basic prices of the specified materials contained therein are inclusive of all taxes. The Committee directed that to get the record verified in support of explanation/stance. In other cases, Audit also informed that the identical nature paras were already printed in previous Audit Reports and presented to PAC for final decision. The Committee pended the para till decision by the PAC.

Audit recommends correct application of standard procedure and clauses of contract agreement regarding price adjustment.

#### **4.4.35 Non-recovery on account of price de-escalation - Rs 226.64 million**

Clause 70.1 of the Contract Agreement provides that the amounts payable to the contractor shall be adjusted in respect of the rise or fall in the cost of labour, contractor's equipment, plant, materials and other inputs to the works, by applying to such amount in the prescribed formula.

Audit observed that prices of High Speed Diesel, bitumen, etc. witnessed a downward trend from January 2015 to June 2015. As such price de-escalation was required to be calculated and deducted by project authorities from the claims of the contractors, having high base rates for all contracts executed in or after November 2014.

Audit observed that despite reduction in the prices of HSD and bitumen during the months of January 2015 to June 2015, price de-escalation was not calculated against interim payment certificates for the said period in violation of PEC standard procedure and formula for price adjustment. This resulted in non-recovery of Rs 226.64 million to the contractors of six projects (**Annexure-G**).

Audit holds that the non-recovery was due to weak internal financial controls.

Audit pointed out the non-recovery in August 2015. The Authority replied that the price adjustment could not be calculated due to non-availability of the current rates for some items. Price adjustment would be evaluated on monthly basis after availability of current rates.

The reply was not tenable because base and current rates were notified by the authorities concerned. De-escalation was not calculated to provide undue benefit to the contractor.

The matter was discussed in DAC meeting held on 2<sup>nd</sup> February, 2016, wherein the Committee directed that price de-escalation may be calculated and recovered from the contractors immediately. The Committee further directed that due vigilance be exercised and price de-escalation cases be processed in timely manner.

The compliance of DAC's directive was not made till the finalization of this Audit Report.

Audit recommends recovery of price de-escalation.

#### **4.4.36 Unauthentic payment of price escalation due to non-revision of Factor-C - Rs 1,322.23 million**

According to clause 13.8 of the contract the weighting (coefficients) to each of the factors of cost stated in the table of adjustment data shall only be adjusted if they have been rendered un-reasonable, unbalanced or inapplicable as a result of variation.

Audit noted that the NHA awarded the work "Construction of Faisalabad-Khanewal Motorway (M-4) Package-1 Faisalabad-Gojra Section (58 KM)" to the contractor M/s China International Water & Electric Corporation (CWE) with an agreement cost of Rs 10,305.08 million.

Audit further noted that V.O-2 was approved by NHA, as a result of which contract amount was reduced from Rs 10,305.08 million to Rs 9,985.55 million.

Audit observed that accepted bid rates for Bill No.1 to 7 were unbalanced. As a result of V.O-2 there was an addition of Rs 1,797.82 million due to increase in quantities of work whereas items amounting to Rs 2,090.97 million were deleted from the BOQ. It is worth mentioning here that Bill No.4D (Nine Flyovers) was entirely deleted from the BOQ.

This drastic change in the agreed BOQ rendered weightings (Coefficients) to each factor of the cost stated in the table of adjustment data unreasonable/unbalanced, but the Factor-C was not revised resulting into undue favour to the contractor. Due to non-revision of Factor-C payment of escalation for Rs 1,322.23 million upto Escalation Payment Certificate-27 was held unauthentic.

Audit pointed out the irregularity in August 2015. The Authority replied that Bill No 4D Flyovers mainly comprises of two items one structure and other embankment of approaching ramps. Structure part i.e. flyovers have been converted into Bridges which is same nature job (i.e. concrete). Profile of main carriageway was raised due to provision of bridges/underpasses and embankment of Flyovers was utilized into main carriageway to raise the level. Embankment was deleted from one side and added on other side, so there is no change in nature of job. Overall variation in the Project Cost is 3%, whereas, generally Factor C is revised if cost varies more than 15%.

The reply was not tenable because addition of Rs 1,797.82 million (increase in quantities) is 17.44% of original agreement and deletion of BOQ items amounting to Rs 2,090.97 million (20% of the original agreement cost) is termed a major change in the scope of work rendering the bid unbalanced. Therefore as per agreement coefficient to each of the factors of cost stated in the table adjustment were to be adjusted which was not done.

The matter could not be discussed in DAC meeting despite best efforts.

Audit recommends that contract clauses regarding coefficient/weightages for price adjustment be implemented in letter and spirit.

(DP. 163)

#### **4.4.37 Non-recovery of liquidated damages - Rs 653.98 million**

According to condition clause 47 of contract agreement, of contract, amount of Liquidated Damages denotes that 0.1% of the contract price for each days of delay incompleteness of the work subject to a maximum of 10% of contract price stated in the letter of acceptance.

Audit observed that the contractors of fifteen works could not complete the works in stipulated or extended period, but liquidated damages were not imposed on the contractors for Rs 653.98 million (@10% of Rs 6,539.80 million), as detailed in **Annexure-H**.

Audit holds that non-imposition of liquidated damages is undue favour to the contractors, which resulted into non-recovery of Rs 653.98 million.

The irregularity occurred due to weak internal controls.

Audit pointed out the non-imposition of liquidated damages in March/September 2015. The Authority replied that works could not be completed due to law and order situation, intervention of locals, increase in scope of scope/re-location, severe weather conditions, floods, etc and extension of time were under process. In case of DP. 332, NHA replied that contract of Package-III of Shaheed Benazir Bhutto had been terminated and balance work was being measured for recovery from the contractor. As regards Syedwala Bridge at River Ravi, a Memorandum of Understanding had been signed with M/s FWO under which the contractor is bound to complete the work by 30<sup>th</sup> May, 2016. The Extension of Time

was under process and liquidated damages would be imposed in case of default of the contractor.

The reply was not tenable as the contractors were aware of weather conditions in the area, law & order situation and bid price was offered accordingly. In all cases, due vigilance was not exercised to get the works completed within stipulated period.

The matter was discussed in DAC meetings held on 11<sup>th</sup>-12<sup>th</sup> and 15<sup>th</sup> January, 2016. The Committee directed NHA to submit detailed reply explaining causes of delay, current status/progress of projects with expected dates of completion, measures taken to improve progress, Extension of Time processed along with financial concurrence and imposition of liquidated damages/action against contractor as per contract clause and get it verified from Audit.

The compliance of DAC's directives was not made till finalization of this Audit Report.

Audit recommends that steps may be taken to improve execution of projects besides compliance of the DAC's directive.

#### **4.4.38 Overpayment due to re-rating of modified rail tunnel excavation rates - Rs 392.39 million**

Clause 52.2 of Conditions of Contract Part-II states that the change in unit rates/prices shall not be applicable for excavation of rock within the railway and road tunnel (reference BOQ, Bill No.1). The same condition shall be applicable in earth work on South and North Link Access Roads and land development on the South and North portal area.

Audit observed during audit of the accounts of Lowari Tunnel Project, NHA, Dir that rates of underground excavation for tunnel under item No.A10301, A10304, and A10305 of modified road tunnel were changed against widening portion and payment was made @ Rs 3,500 per cu.m. Whereas, there was no need to rerate the same items in the light of

above referred contractual provision and existed provision of excavation for widening of top heading footings in the rates of original BOQ items. Due to un-necessary rerating of certain excavation items of tunnel against widening portion of tunnel, the contractor was overpaid for Rs 392.39 million.

Audit holds that rerating was made due to non-adherence to the contractual provision.

Audit pointed out the overpayment in October 2015. The Authority replied that the excavation was required to be made in virgin rock for rail profile through “New Austrian Tunneling Method” (NATM) for 45Sqm X-Section profile. Said excavation was made through Jumbo Machine with three boom. For widening of Tunneling, from 45 Sqm to 87Sqm are quite different and difficult from the excavation in virgin rock. The excavation is required after dismantling of rock support and thus special attention was required.

The reply was not tenable as excavation of virgin rock was a difficult task and contractor quoted his rates keeping in view said complications, therefore, re-rating for widening the excavated hole was contrary to the provision of contract.

The matter was discussed in the DAC meeting held on 2<sup>nd</sup> February, 2016. Audit contended that as per clause 52.2-C the change in unit rates shall not be applicable for excavation of rock within railway and road tunnel. Therefore, re-rating of the excavated item for additional width was unjustified. NHA explained that for widening of tunnel from 45 to 87 Sq. m was a quite different and difficult task from the excavation in virgin rock due to which re-rating was made. The Committee pended the para for verification of record pertaining to re-rating.

The compliance of DAC’s directive was not made till the finalization of this Audit Report.

Audit recommends early compliance of DAC’s directive.

(DP. 190)

**4.4.39 Irregular /unjustified award of contract on account of support and maintenance of ETTM system and overburdened the NHA revenue - Rs 289.99 million**

Rule 20 of Public Procurement Rules, 2004 provides that, ‘the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works’. Clause 18 of special condition of contract of “supply, installation, commissioning and maintenance of ETTM system on N-5” provides that the supplier shall train the purchaser’s/management contractor’s personnel in a period of three (03) weeks in Pakistan.

Audit noted that the contract for “supply, installation, commissioning and maintenance of ETTM system on N-5” was awarded to M/s TolLink with contract cost of Rs 137.94 million on 24<sup>th</sup> December, 2003 which was to be completed within 24 months. The contractor installed the system at three (03) locations (Iqbal Shaheed, Tarraki & Jhelum) up to December 2005 and on remaining six (06) locations the system was installed through piecemeal separate pre-installation contract in the year 2008, 2009 & 2011 whereas location of one toll plaza was shifted from N-5 to Islamabad-Muzaffarabad Dual Carriageway which was commissioned in 2014.

Audit observed that training of the NHA/OMC personnel for operation and maintenance of the system was the responsibility of the contractor but a contract for support and maintenance of the ETTM system was awarded to M/s TolLink without calling tenders at ten (10) toll plazas at various rates ranging from 42 to 45 paisa per vehicle and a payment of Rs 289.99 million was made on said account through this contract. Last extension was granted up to 31<sup>st</sup> December, 2014. M/s TolLink provided the services of support and maintenance of system on higher rates by taking monopolistic control for said job whereas there are other certain companies were also are providing the same services.



Audit holds that had the proper trainings been imparted to NHA and OMC personnel, NHA could have saved Rs 289.99 million spent on support and maintenance of ETTM system.

Non-adherence to contract caused irregular /unjustified award of contract on account of support and maintenance of ETTM system and overburdened the NHA revenue.

Audit pointed out the irregular/unjustified award of work in March 2015. The Authority replied that the training has been provided to the NHA/OMC in accordance to the contract, however, the ETTM equipment is state of the art technology and needs to be kept operational round the clock without any error/omission. Therefore, it needs continuous supervision and maintenance through placement of competent manpower at each toll site to perform a specialized job function for which services were hired from M/s TollLink.

The reply was not tenable because original contract was awarded in December 2003 and was to completed in December 2005 and during said period the training was to be imparted to the NHA staff for operation and management of ETTM system for future requirements, whereas a separate contract for operation and management was awarded to the same firm without tendering which was violation of the contractual provisions and PPRA.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends fixing of responsibility against the person at fault.

(DP. 260)

#### **4.4.40 Non-recovery of transportation cost due to non-disposal of excavated material - Rs 197.59 million**

According to item No.A1041, spoils over 02 Km from portal head but up to a lead of 10 Km was to be transported @ Rs 153 per km/cm. It meant that transportation cost of spoils up to 02 Km from portal head was included in the respective excavation items of BOQ Bill No.A.

During site visit of the Lowari Rail Tunnel Project, Dir, Audit observed that entire excavated material of both tunnels was dumped at north and south portal sites of tunnels instead of disposing of it 02 Km beyond the portals as cost of 02 Km transportation was considered to be inbuilt in the respective excavation items. Under such situation transportation cost for 2 Km was required to be recovered from the contractor @ Rs 153 per km/cm (as provided against item No.A1041) but the same was not done. This caused non-recovery of Rs 197.59 million from the contractor.

Audit holds that non-recovery of transportation cost against 02 Km lead was due to non-adherence to the provision of contract agreement and inadequate oversight mechanism for implementation of internal and financial controls.

Audit pointed out non-recovery in October 2015. The Authority replied that pursuant to pay item A 103, the contractor is bound for excavation of tunnel including all kinds of niches and including drilling blasting and disposal of excavated material to dumping site with lift and lead upto two Km from portals as per direction of the Engineer. The dumping of excavated material is not made currently owing to use of material in other items as material would be of no use once it is dumped in its final destination i.e. River Bed. Furthermore, the dumping of excavated material at current locations provide space for maneuvering of equipment and machinery at platform and also provide space for storage of Bridge Girders and other material.

The reply was not tenable because final dumping of the excavated material was not yet made, therefore, the component of the haulage of 2 Km was required to be deducted till disposal of excavated material at demarcated locations.

The matter was discussed in the DAC meeting held on 2<sup>nd</sup> February, 2016, wherein General Manager LTP explained that disposal of excavated material was being made up to two Km. Audit reiterated that in reply it is conceded that temporary dumping was being made in order to utilize the excavated material in various items of work and final dumping would be made on completion of the project. DAC pended the para in order to watch the final disposal and adjustment of rate/recovery, otherwise.

Audit recommends that appropriate measures be taken to ensure proper disposal of excavated material/recovery from the contractor.

(DP. 173)

#### **4.4.41 Loss of revenue due to award of operation & management of weigh station contracts on higher rates - Rs 178.49 million**

Rule 3 (2) of RMA Rules, 2003 provides that the all revenues from road users accruing to the NHA, from the following sources, net of collection costs, shall be expeditiously transferred into the RMA, namely:

- I. Tolls on roads and bridges;
- II. Road use related fines (e.g., overloading, traffic offence);
- III. Axle load charges;
- IV. Supplementary heavy vehicle fee;
- V. International transit fees; and
- VI. Border fees.

Rule 5 of RMA Rules provides that Road Asset Management Directorate shall regularly review the level of tolls and other levies being channeled into the Roads Maintenance Account and recommend adjustments to the Chairman, to match revenues with expenditures needed

to fully address the network-level maintenance needs of the National Highway Authority. (2) toll levels shall be adjusted over time to reflect the following as far as possible, namely:

- a) Extent or road use
- b) Damage caused to network
- c) Level of service provided

Audit noted that General Manager (Revenue), NHA awarded contract for operation and management of weigh stations during the year 2013-14. A review of the sub-ledger of said account disclosed that an amount of Rs 286.45 million was paid on account of Operation & Management cost of these weigh stations to various operators.

Audit observed that an income of Rs 107.96 million was earned from weigh stations, remitted by all operators including General Managers of the Regions. This state of affair is evident that NHA management awarded O&M contracts either on fix or sharing basis at higher rates as income was found deficit than the expenses and these expenses were met out from other RMA revenue which was unjustified/undue burden thereon.

It is added that these weigh stations were installed for implementation of Axle Load Control to save the road network from deterioration but it was observed that corrosion of NHA road network is continued. On the other side, fine income was also declining which meant that proper enforcement of Axle Load Control was not being made.

Ineffective implementation of Axle Load Control caused loss of revenue of Rs 178.49 million (Rs 286.45 million – Rs 107.96 million).

Audit pointed out loss of revenue in March 2015. The Authority replied that the contracts for operation and management of weigh stations were awarded through competitive bidding under PPRA rules. The weigh stations are established to control the Axle overload and not to earn the revenue. Furthermore, the fine collection amount from these weigh stations cannot be compared with the expenditures for overall network.

The reply was not tenable because despite establishment of the weigh stations and incurring huge expenditure on operational & management neither axle load control was implemented nor fines were imposed to the extent of O&M cost of the weigh stations due to which Authority revenue is overburdened to Rs 178.49 million and value for money is not being achieved.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends that appropriate measures be taken to improve axle load control and analytical review be carried out to judge impact on life of road assets.

(DP. 271)

#### **4.4.42 Unjustified payment of interest to contractor due to delayed payment - Rs 172.57 million**

As per Clause 14.7 (c) the Employer shall pay the contractor the amount certified in the final payment certificate within 56 days after receipt of the payment certificate or at a time when the bank's loan or credit is suspended, the undisputed amount shown in the final statement within 56 days after the date of notification of the suspension in accordance with sub-clause 16.2. As per Clause 14.8 of the contract agreement, if the contractor does not receive payment, the contractor shall be entitled to receive financing charges compounded monthly on the amount unpaid during the period of delay. This period shall be deemed to commence on the date for payment on which interim payment certificate is issued. The clause 14.15 (a-i) the proportions or amounts of the local and foreign currencies, and the fixed rates of exchange to be used for calculating the payments, shall be as stated in the schedule of payment currencies, except as otherwise agreed by both parties.

As per Rule 12 of GFR (Vol-I), a Controlling officer must see not only that the total expenditure is kept within the limits of the authorized appropriation but also that the funds allotted to spending units are

expended in the public interest and upon objects for which the money was provided.

Audit noted that as per revised PC-I of the work “Rehabilitation of Earthquake Affected Section of Alpuri-Besham Road (N-90), there was a provision of Rs 164.96 million for Financial Charges on delayed payment. Audit observed that NHA made payment of Rs 169.46 million on account of interest for delayed payment to contractors up to 30<sup>th</sup> June, 2015.

Audit observed following irregularities:

- i. Abnormal delay was not investigated/examined and responsibility was not fixed against persons at fault. Clauses 14.7(c) and 14.8 were not followed in letter and spirit while releasing the payment.
- ii. Interest on delayed payment was paid on mobilization advance and subsequent IPCs paid to the contractors including the period of ADB financing.
- iii. Proof of date of certified amount and detail of process of IPC’s had not been provided/attached with payment record.
- iv. The payment of Rs 169.46 million was made against the provision of Rs 164.96 million in the revised PC-I, resulting excess of Rs 4.50 million.

In the absence of proper investigation of delay, authenticity of payment could not be ascertained. This resulted into unjustified payment of interest amounting to Rs 169.46 million to the contractors.

Audit pointed out the irregularity in October 2015. The Authority did not reply.

The matter was discussed in DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January 2016, wherein NHA explained that interest on delayed payment was made as per provision of contract and it is approved in the revised PC-I. Audit contended that non-payment of IPCs in stipulated time despite availability of funds requires investigation and due to this delay, the loan

was closed. The Committee directed to investigate the matter at MoC level.

The compliance of the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends early compliance of DAC's directive.

(DP. 355&362)

**4.4.43 Non-charging of financial impact of EOT and interest accrued on loan advance due to non-execution of work as per approved plan of the work - Rs 128.97 million**

According to Clause 14.1 of Conditions of Particular Application Part-II, the contractor shall submit to the Engineer, the program within 28 calendar days from the date of receipt of Letter of Acceptance. According to Clause 14 (iv), the Construction Schedule submitted by the Contractor as part of his Bid shall meet the Time(s) for Completion specified in accordance with the Construction Schedule as revised and as subsequently approved by the Engineer. Any delay incurred and any costs attributable to such delay, due to submission of unacceptable Programs shall be the responsibility of the Contractor.

Clause 4 (2.02) of Schedule 8 of Amendment of loan agreement No. PK-P55 dated 15<sup>th</sup> December, 2006 for Indus Highway Construction (III) provides, the borrower shall prepare a financial forecast that reflect the fund requirements, in principle, for the subsequent two (2) terms (three months each), with sufficient details to enable JICA to verify the reliability of the forecast and submit the same to JICA promptly after the end of every two (2) terms.

**4.4.43.1** Audit noted that work "Construction of Additional Carriageway of Indus Highway (N-55) Sehwan-Khairpur Nathan Shah-Ratodero" was awarded to M/s Frontier Works Organization (FWO) with completion period of 36 months [date of start of the work was 11<sup>th</sup> December, 2010 and date of completion as 10<sup>th</sup> December, 2013 (original)]. The contractor did not complete the work as per original program of the work due to non-

achieving the required progress 9.13% per month. Extension of Time was granted for one year with revised approved program upto 10<sup>th</sup> December, 2014. M/ s FWO again failed to complete the work and another EOT for 6 months was granted upto 30<sup>th</sup> June, 2015 with financial effect of Rs 640.00 million. The contractor was obliged to complete the 100% work.

Audit observed that as per Monthly Progress Report for June, 2015, physical progress achieved by the Contractor was 90.87% against the planned progress of 100%. As such, physical progress was lagging by 9.13%. The delay occurred in completion was attributable to contractor cash flow problem for purchase of material. This state of affair is indicative one that the work could not be completed in extended time and terms and conditions of grant of extension were not fulfilled. Audit holds that as per contract the costs attributable to delay amounting to Rs 58.43 million (9.13% of Rs 640 million) was required to borne by the contractor.

Non-adherence to contract caused non-charging of additional cost of Rs 58.43 million on account of slow progress to the contractor.

**4.4.43.2** Audit noted during scrutiny of accounts record (withdrawal applications) of project that an amount of Rs 6,006.03 million was withdrawn during FY 2014-15 out of which an amount of Rs 4,503.36 million was expended/paid to M/s FWO leaving balance of Rs 1,562.68 million at the end of FY 2014-15. This state of affair is well evident that either financial forecast for fund requirements was not accurately evaluated or contractor did not execute the work as per approved plan which caused withdrawal of funds more than demand. As this balance was withdrawn from the loan and accounted for as disbursed in JICA/Bank account which rendered it to be charged interest thereon. Audit holds that the markup/interest accrued amounting to Rs 70.54 million would be charged to the contractor having short capacity than available financial resources or the persons responsible for incorrect financial forecast.

Audit holds that non-charging of additional cost on account of slow progress to the contractor was due to weak internal controls and



inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the irregularities in August/September 2015. The Authority did not reply.

The matter was discussed in DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January 2016, wherein NHA explained that Extension of Time (EOT) was granted to the contractor on the grounds attributable to employer like possession of site, revision of design, relocation and land acquisition. Audit contended that EOT with financial impact was conditionally approved for completion of work within extended time. As the contractor failed to complete the work within the extended period, therefore financial effect of the unexecuted work and interest accrued on utilized advance from the loan was to be charged/recovered from the contractor. DAC directed that a fact finding inquiry be conducted at MoC level and finding be shared with Audit within one month.

The compliance of the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends early compliance of DAC's directive.

(DP. 91&92)

#### **4.4.44 Loss of revenue due to award of fine collection contracts on unbalanced/irrational percentage basis - Rs 120.25 million**

Rule 3 (2) of RMA Rules, 2003 provides that the all revenues from road users accruing to the NHA, from the following sources, net of collection costs, shall be expeditiously transferred into the RMA, namely:

- I. Tolls on roads and bridges;
- II. Road use related fines (e.g., overloading, traffic offence);
- III. Axle load charges;
- IV. Supplementary heavy vehicle fee;
- V. International transit fees; and

## VI. Border fees.

Audit noted during review of the schedule of police fine collection for the year 2013-14 that 54 contracts were awarded to various operators for fine collection on various beats of National Highways and Motorways on percentage sharing basis.

Audit observed that average percentage of collection charges was 11% to 22% whereas certain contracts on National Highway and Motorways were awarded on 40% to 85% which was far higher than fine receipt and its O&M charges.

Audit holds that either the traffic offences are minimal or pragmatic demarcation of beats was not made and operators are being added at the cost of Authority's revenue.

Award of fine collection contracts on unbalanced/irrational percentage basis caused a loss of Rs 120.25 million.

Audit pointed out the loss of revenue in March 2015. The Authority replied that out of 12 contracts, 09 contracts pertain to Motorways M2 & M3 and the toll collectors have to take U-turn about 40-50 Km. The revenue of two fine collection contractors in the Balochistan was being affected by adverse law & order situation whereas road user on the Lyari Expressway are well aware and there was less fine collection.

The reply was not tenable as no rational & cogent justification and backup calculation was provided by the Authority in support of its stance.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends that matter be investigated and responsibility be fixed against the persons at fault.

(DP. 269)

#### **4.4.45 Overpayment to Contractor due to non-deduction of rebate - Rs 110.65 million**

According to BOQ of the contract agreement of Contract-09 Rehabilitation works on National Highway N-5, Turnol-Chablat (57 km), the contractor allowed rebate @ 21% on quoted rates to NHA.

According to contractor letter dated 1<sup>st</sup> April, 2005, the contractor offered rebate @ 19.56% on quoted rates to NHA for contract No. C-03 on account of rehabilitation works on National Highway N-5, Moro-Ranipur (88.5 km).

Audit noted during scrutiny of record of the General Manager, National Highway Improvement Program (NHIP) Islamabad that a contract was awarded to M/s Lilley International bearing contract No. C-09 on account of Rehabilitation works on National Highway N-5, Turnol-Chablat (57 km) for Rs 1,193.77 million.

Another contract (C-03) was awarded to M/s Saad-Ullah Khan and Brothers on account of rehabilitation works on National Highway N-5, Moro-Ranipur (88.5 km) for Rs 1,110.20 million

Audit observed that the Authority made payment to contractors for total value of work done including variation orders (VOs) but did not deduct the rebate on value of work of variation order as per agreement. This resulted into an overpayment to contractors due to non-deduction of rebate for Rs 110.65 million (Rs 87.73 million in case of Contract-09 and Rs 22.92 million in case of Contract-03).

Audit pointed out the overpayment in September 2015. The Authority replied that according to sub clause 52.1 the rates for valuation of varied works were taken from the NHA's CSR and prevailing in local markets for the items which were not included in the Contract activity schedule prices. Where the rates were available in the Contract the same have been used with the rebated prices for the payment of additional

works like the payment for facilities of extended period. As the rebate provided in the Contract for only prices included in the Contract therefore the rebate included in the Contract cannot be applied on the rates taken from market/NHA's CSR using actual prices prevailing in market for the varied works.

The reply was not tenable because in support of reply no reason for non-recovery of rebate on non-BOQ item has been explained. Rate analysis of non-BOQ item was also not produced to Audit for verification.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends early recovery and fixing of responsibility at person(s) at fault.

(DP. 425, 426)

**4.4.46 Undue burden on RMA account due to deployment of consultant for construction supervision of maintenance work - Rs 76.77 million**

Para 1 of Chapter-4 of NHA Code 2005 (Vol-I) provides that the services of a consultant shall, as general rule, be obtained for technical jobs when the required expertise/skill is either not available in the Authority as provided.

Para 6 of the ibid Code provides that all possible efforts shall be made by the Authority to impart necessary training to its own engineers/officers in the relevant fields whose expertise could be utilized in future and the engagement of consultants could be avoided as far as possible.

Audit noted that General Manager, Procurement & Contract Administration, NHA procured three (3) consultancy contracts for construction supervision of periodic maintenance works on NHA network for Annual Maintenance Plan 2012-13 to be executed in Punjab-North,

Punjab-South, Balochistan-South and Balochistan-North Regions as detailed below:

<b>Region/Zone</b>	<b>Consultant Name</b>	<b>Amount (Rs in million)</b>
Zone 2, Punjab - North (Region-3) Punjab-South (Package-4)	Zeeruk International	33.46
Zone-3 Sindh south (Region-5) Sindh - North (Region-6)	Professional Eng Services	21.92
Zone-5 Balochistan-North (Region 9) Balochistan South (Region 10)	Euroconsult Pak Pvt Ltd	21.39
<b>Total</b>		<b>76.77</b>

Audit holds that these regions are equipped with the skilled manpower, Inspectors, Assistant Directors, Deputy Directors, Director and General Managers of engineering cadre having vast experience/qualification for supervision of the maintenance works. As per NHA Code, GMs of the region are service provider units, therefore hiring of consultancy services for the assigned job of the regions was unjustified. As regard premise of deployment of consultant for supervision of asphaltic work having non-availability of expertise of the existing staff of the regions, it is clarified that NHA have their own lab technician and laboratories for testing of asphaltic work which were required to be utilized accordingly. Design/drawing/estimates of works were prepared by Authority's own engineers by utilizing its own in-house capacity. Therefore, construction supervision can easily be handled by these officers. All works are being supervised by Maintenance unit itself in entire NHA Network; therefore, deployment of consultant for supervision of routine nature of work was unjustified.

Unnecessary procurement of consultancy services caused undue burden of Rs 76.77 million on Road Maintenance Account.

Audit holds that irregularity occurred due to weak internal controls and inadequate oversight mechanism for enforcing provision of NHA Code.

Audit pointed out the irregularity in September-October 2015. The Authority replied that the services of the consultants were procured for 44 schemes which were scattered all over the network and the man-power/strength of the maintenance unit level was scarce and was unable to handle these periodic maintenance works.

The reply was not tenable, because all Regions are adequately equipped with the skilled man-power and are established as service provider units, therefore hiring of consultancy services for the assigned job of the regions was unjustified.

The matter was discussed in DAC meeting held on 2<sup>nd</sup> February, 2016. Audit contended that construction supervision of the maintenance works was the responsibility of the regional General Managers, having skilled manpower, therefore, procurement of the supervision services was not justified. NHA explained that works involved some sort of specialized expertise whereas the maintenance staff could manage the routine activities and there was deficiency in capabilities for supervision of asphaltic work. The Committee directed that qualification, outcome and strength of the maintenance staff posted in the regions and the consultant staff may be provided to Audit for evaluation of the justification of deployment of consultants for maintenance works.

The compliance of DAC's directive was not made till the finalization of this Audit Report.

Audit recommends that appropriate corrective measures be taken to improve services of regional offices.

(DP. 194)

#### **4.4.47 Loss of revenue due to non-awarding of ETTM toll plazas through competitive bidding - Rs 64.02 million**

Para-12-b of Chapter Eleven of NHA Code (Vol-I) provides that toll shall be collected through an O&M contractor procured under PPRA/RMA Rules as a service contract or as a maximum guaranteed bid.

Audit noted during review of the case file that eight (8) ETTM toll plazas were required to be auctioned through competition on sharing basis, but NHA could not arrange competition in timely manner and M/s NLC retained occupation of these toll plazas on 11% sharing basis without operating ETTM System.

Audit observed that tendering of these ETTM plazas were carried out in June 2014 wherein lowest sharing percentage was achieved through competitive bidding as compared to sharing of M/s NLC. This delay at the part of management caused loss of revenue.

Non-awarding of ETTM toll plazas through competitive bidding resulted in loss of revenue amounting to Rs 64.02 million.

Audit pointed out loss of revenue in March 2015. The Authority replied that NHA has to bear a loss of Rs 64.02 million due to non-procurement of ETTM based toll plazas under PPRA/RMA rules. As compared to the private operators and being an organized/established organization NLC has more overhead expenditures and low traffic volume due to which NLC was hired @ 11% O&M share.

The reply was not tenable because non-arranging competitive bidding for toll collection services was a mis-management and clear violation of Public Procurement Rules.

The matter could not be discussed in DAC meeting despite best efforts.

Audit recommends fixing of responsibility against the person at fault.

(DP. 265)

#### **4.4.48 Overpayment due to non-deduction of cost of in-built component of an item - Rs 56.10 million**

As per NHA specification 108.3.2, embankment formed of material consisting predominantly of rock fragment of such size that the material cannot be placed in layers of the thickness prescribed without crushing, pulverizing or further breaking down the pieces, such material may be placed in layers not exceeding in thickness the approximate average size of the rocks except that no layer shall exceed eighty (80) cm of loose measurement and compacted by a vibratory roller with the minimum mass.

The material shall be carefully placed in layers, so that all larger stones will be well distributed and voids completely filled with smaller stones, shale, earth, sand and gravel, to form a solid mass. After placing rock material, surface shall be covered with a layer of fine material having thickness less than twenty (20) cm. Such fine material shall be reserved from roadway excavation by the Contractor. Should such material be available but not reserved, the Contractor will supply and place borrow material for forming smooth grade without extra payment.

Audit noted during review of the accounts record of project “Construction of Additional Carriageway of Indus Highway (N-55) Sehwan-Khairpur Nathan Shah-Ratodero”, that an item of work PS-19.2 Embankment in pond areas was provided in the Estimate/BOQ which specified that rock fill would be added to bring the working platform to the required level, compacted and finished as specified for rock material in the general specification.

A review of the measurement sheets, drawing designs and cross sections indicated that another item of work PS-12 “Granular Drainage Layer” was provided in the BOQ as fine granular material for usage



overlay over the rock embankment and measured/executed having thickness of 30 cm. Audit holds that as per general specification 20 cm fine material was to be laid over the rock embankment by the contractor at his own expense which was construction requirement of the item of work whereas in instant case 30 cm fine granular material is being laid at extra cost of Rs 1,123.55 per Cu.m, therefore, cost of 10 cm was required to be deducted as it was included in the item rate of rock embankment PS-19. This aspect was completely ignored and entire measured quantity of 30 cm was paid rather than deduction of the 10 cm inbuilt component.

Non-adherence to contract specification caused overpayment of Rs 56.10 million, as calculated below:

<b>Qty paid (Cu.m)</b>	<b>Excess qty paid (Cu.m)</b>	<b>Rate (Rs/cu.m)</b>	<b>Amount paid (Rs)</b>
149,782.127	49,927.37 (149,782.127*10/30)	1,123.55	56,095,902

Audit holds that the overpayment was made due to weak internal controls.

Audit pointed out the overpayment in August/September 2015. The Authority replied that “Formation of embankment in pond with rock material” is executed under Contract Specification PS-19.2, whereas Granular Drainage Layer was constructed under PS-12 of the contract. It clearly indicated that both are independent and separate activities and are payable under separate rates.

The reply was not tenable as fine material obtained from the roadway excavation was required to be laid over the rock embankment after compaction of the rock, whereas as per approved cross section/measurement book/design 30 cm drainage layer was laid over the rock embankment. As such the component of the fine material approx. 10 cm in the cost of rock embankment was required to be deducted, which was not done.

The matter was discussed in the DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January, 2016, wherein Authority explained that both items were separately executed, measured and paid. Audit contended that fine material laid over the rock embankment having similar grading like drainage layer was not payable separately as its cost was included in the item PS-19 and as per measurement book/cross-section item PS-12 drainage layer was shown laid directly on the rock embankment, therefore, about 10 cm quantity of rock was required to be adjusted instead of 20 cm as earlier pointed out. The Committee directed that execution of both items separately be got verified from Audit.

The compliance of DAC's directive was not made till the finalization of this Audit Report.

Audit recommends early recovery of the overpaid amount  
(DP. 99)

**4.4.49 Loss of revenue due to non-implementation of prescribed timelines - Rs 52.63 million**

Clause 3.8 (ii) of Article-III of COC provides that if the fixed guaranteed monthly advance revenue is not deposited in NHA designated account by the 5<sup>th</sup> of each month (due date 1<sup>st</sup> of each month with five 5 days grace period), one black dot with each day of delay will be awarded and the following penalty mechanism shall become applicable and effective automatically:

<b>Monthly Installment amount</b>	<b>Amount of Penalty</b>
Rs 0.51 million to Rs 10.00 million	Rs 6,000 per day

Clause 9.1 of Article-IX defines non curable default and curable default and 9.2 provides that in failure of OMC to deposit the net guaranteed revenue in NHA's designated account within 10 days from the due date i.e. 5<sup>th</sup> of each month is termed as Non Curable default.

Audit noted during review of the case file and revenue statement prepared by the Director (Revenue) that M/s Speed Inc. was defaulted on non-depositing 3<sup>rd</sup> installment for the month of September 2013 upto 10<sup>th</sup> October, 2013 including grace period of 5 days. In view of occurrence of this intolerable default NHA management was required to initiate termination of contract and forfeiture and adjustment of the performance and cash securities and imposition of penalties.

Audit observed that no such action was taken in prescribed timelines for forfeiture of security and encashment of bank guarantee and contractor was given ample time to move the Court and got the stay order against the forfeiture of security and encashment of bank guarantee.

Non-adherence to contract and non-implementation of prescribed timelines caused loss of revenue of Rs 52.63 million.

Audit pointed out loss of revenue in March 2015. The Authority did not reply.

The matter could not be discussed in DAC meeting despite best efforts by Audit.

Audit recommends for early forfeiture of bank guarantee and encashment of performance bond besides appropriate action against the persons responsible.

(DP. 253)

#### **4.4.50 Overpayment due to allowing full rate instead of reduced rate - Rs 68.32 million**

According to contract specification, if the thickness determined as per clause 305.3.2 of this specification is deficient by more than three (3) mm, but not more than ten (10) mm, payment will be made at an adjusted price as specified in the table below:

<b>Deficiency in thickness as determined by cores</b>	<b>Proportional Rate of contract Price allowed.</b>
0.0 mm to 3.0 mm	100%
3.1 mm to 5.0 mm	90%
5.1 mm to 10.0 mm	80%

**4.4.50.1** Audit noted that the Project “Rehabilitation of Kohala - Muzaffarabad Road (S-2) Package-II was awarded to M/s A.M. Associates and the Project “NCB-S-14 Rehabilitation of Rohri – Panu Aqil Road (N-5) to M/s Zargoan Enterprises (Pvt) Ltd. Audit noted that as per core test report produced from RD 21+250 to 24+255 (3005 m) and 21+250 to 22+250 (1000 m) average thickness of wearing course came to 12.28 cm against the design thickness of 13 cm (0.08+0.05) which was 0.72 mm deficient from the designed thickness. In 2<sup>nd</sup> Project at RD 492+300 and 490+300 (1000 m) average thickness of wearing course came to 18.35 cm against the design thickness of 19 cm which was 0.65 mm deficient from the designed thickness. Therefore, proportional adjustment of 80% in price was required to be made in pursuance of aforementioned provision of specification. But no such adjustment was made and full payment was allowed to the contractor. Non-adherence to specifications caused an overpayment of Rs 2.62 million.

Audit pointed out the overpayment in September 2015. The Authority replied that payment was made as per the NHA specifications and Rs 89,790 were recoverable. Partial recovery was admitted by the department but as per instruction of the inspection team of the NHA Headquarters based on sample test reports of cubes full recovery should be made. Moreover, consultant should also be held responsible because he recommended the payment on the basis of test reports which seems to be fake.

The matter was discussed in DAC meeting held on 2<sup>nd</sup> February, 2016. Authority informed that necessary recovery at reduced rate on account of deficiency in thickness was made. Audit clarified that total

recovery as pointed out is required to be made. The Committee directed that record pertaining to discrepancy between the determined amount be provided to Audit.

The compliance of DAC's directive was not made till the finalization of this Audit Report.

Audit recommends early compliance of the DAC's directive.

(DP. 219)

**4.4.50.2** Audit observed during scrutiny of accounts record of project "Construction of Additional Carriageway of Indus Highway (N-55) Sehwan-Khairpur Nathan Shah-Ratodero (JICA Loan PK P-55)", that average thickness of wearing course was found 4 cm during physical inspection and lab testing carried out by the Inspection Wing, NHA HQ. In view of afore quoted provision of contract specification proportional 80% adjusted price was required to be made, but review of IPCs indicated that no such adjustment was made and full payment was allowed to contractor.

Non adherence to specification caused overpayment of Rs 65.70 million as calculated below:

- 61 KM or cores \* 1000m = 61,000 meters \* 7.30 width \* 0.05cm thickness = 22,265 CM
- Rate paid Rs 14,753.35
- excess Rate paid Rs 2,950.67 (Rs 14,753.35 - 80% of Rs 14,753.35)
- Overpayment Rs 2,950.67 \* 22,265 CM = Rs 65.70 million

Audit holds that the overpayment was due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the irregularities in August/September 2015. The Authority did not reply.

The matter was discussed in DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January, 2016 wherein NHA explained that Thickness of wearing course was paid for as per actual and found at site after extraction of core. Deficient thickness falling within the range from 3.1 mm to 5 mm was allowed for payment at 90% and deficiency within the range of 5.1 mm to 10 mm was allowed at 80% of the contract price. Payment was strictly as per contract and no irregularities or overpayment made. DAC directed NHA to get the measurement books showing deductions, as replied, verified from Audit within seven (07) days.

The compliance of DAC's directives was not made till the finalization of this Audit Report.

Audit recommends early compliance of DAC's directives.

(DP. 97)

#### **4.4.51 Undue burden on the Public Exchequer in shape of interest - Rs 48.92 million**

Section 2.02 of ADB Loan Agreement 2742 Pak (Flood Emergency Reconstruction Project) describes that the Borrower shall pay to ADB interest on the principal amount of the loan withdrawn and outstanding from time to time at a rate for each interest period equal to the sum of LIBOR and 0.60% as provided by section 3.02 of the loan regulations, less a credit of 0.30% as provided by section 3.03 of the Loan Regulation. Economic Affairs Division vide letter dated 15<sup>th</sup> November, 2011 calculated interest on this loan @ 15%. According to Project Administration Manual for FERP "Imprest amount withdrawn as advance should be equal to estimated expense of six months.

During scrutiny of accounts record of the loan for the year 2014-15, Audit observed that imprest Advance was received by NHA on 8<sup>th</sup> December, 2011 for US\$ 3.00 million (Pak Rs 267.13 million). NHA got the advance replenished and liquidated through various withdrawal applications. It took ten months to get first liquidation of Rs 56.89 million

dated 8<sup>th</sup> September, 2012 against first withdrawal of imprest amounting to Rs 267.13 million dated 8<sup>th</sup> December, 2011. This indicated that utilization of imprest amount was very slow. Total amount liquidated up to June 2015 was Rs 326.24 million.

Audit holds that imprest amount was withdrawn without any necessity/actual requirement causing undue burden on the exchequer in the shape of interest of Rs 48.92 million (Rs 326.24 million x 15%).

Audit holds that undue burden on the Public Exchequer in shape of Interest was due to violation of rules and weak internal controls.

Audit took up the matter with the management in September 2015. The Authority did not reply.

The matter was discussed in the DAC meeting held on 2<sup>nd</sup> February, 2016. Audit informed that imprest advance was drawn from the loan which was not utilized. This unnecessary withdrawal caused undue burden in the shape of interest. NHA replied that limit of disbursement from imprest was lesser than the claim of the contractor, therefore, it remained unutilized for considerable period. The Committee showed displeasure for withdrawal of advance without necessity and directed to submit revised reply alongwith prevalent facts regarding non utilization of advance.

The compliance of DAC's directive was not made till finalization of this Audit Report.

Audit recommends early compliance of DAC's directive.

(DP. 246)

#### **4.4.52 Non-recovery on account of rectification of damaged works from the contractor - Rs 42.22 million**

As per Clause 17.2 of Contract agreement, the contractor shall take full responsibility for the care of the works and goods from the

commencement date until the taking over certificate is issued. If any loss or damage happens to the works, goods or contractor's documents during the period when the contractor is responsible for their care, the contractor shall rectify the loss or damage at the contractor's risk and cost.

Audit noted that Project Director, Alpuri-Besham N-90 awarded three (3) contracts for Rs 38.00 million on account of day works.

Audit observed that day works were executed after flood and these works were under care of the contractor. Therefore, all kind of expenditures to rectify the damages was required to be borne by the contractor but in these cases the damages have been rectified at the cost of NHA instead of contractor. This resulted into a loss to Authority of Rs 42.22 million.

Audit pointed out the irregularity in October 2015. The Authority replied that the provision of "Day work" (Clause 13.6 of General Condition of Contract) was included in the construction contract through Addendum No. 01 which was imperative for execution/rectification of flood July 2010 damaged works fall under Clause Force Majeure (Clause 19 of General Condition of Contract).

The reply was not tenable as insurance policy contained the risk coverage of flood, earthquake, Tsunami, rain, storm, landslides; therefore, a claim was required to be lodged with the insurance company for the expenditure incurred on the rectification of defects, removal of landslides, restoration of road work due to damage caused by flood.

The matter was discussed in the DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January 2016, wherein the Authority explained that in 2010 flood, road was damaged and washed up to 4.5 km. This loss was not covered in the insurance policy. Audit presented the policy contents of risk coverage before DAC which contained the risk coverage of flood damages. The Committee directed that the claim may also be lodged for covering the loss from insurance company as the policy contained the risk coverage of flood.



The compliance of DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends fixing of responsibility against the person at fault.

(DP. 361)

#### **4.4.53 Overpayment due to non-utilization of available item - Rs 36.89 million**

As per clause 52.1 of standard bidding documents all variations referred to in Clause 51 and any additions to the Contract Price which are required to be determined in accordance with Clause 52 (for the purposes of this Clause referred to as "varied work"), shall be valued at the rates and prices set out in the Contract.

The work was required to be executed as per quoted rates of the contractor for the Item of Work, 108c "Formation of Embankment from Borrow Excavation in Common Material".

Audit noted that under Bill No. 4-d- Interchanges (05 Nos.), an item of work, 108c "Formation of Embankment from Borrow Excavation in Common Material" for the work, "Construction of Motorway (M-4-Extension) from Khanewal to Multan (57 KM) was provided for a quantity of 1,463,700 M<sup>3</sup> @ Rs 215 per M<sup>3</sup>, but was executed for a quantity of 276,237 M<sup>3</sup> only.

Audit observed that the above said item of work was not executed fully and in addition to above said item an extra item No. 108-ci (formation of Embankment from Borrow excavation in common material) for a quantity of 163,236 M<sup>3</sup> @ Rs 448 per M<sup>3</sup> was paid to the contractor. This resulted in an overpayment of Rs 36.89 million (Rs 448 – Rs 215 = Rs 233 x 163,236 M<sup>3</sup> = Rs 38.03 million x 3% rebate) to the contractor.

Audit holds that the violation occurred due to inadequate oversight mechanism to safeguard public interest.

Audit pointed out the irregularity in August 2015. The Authority replied that the construction of southern loops of Shamkot Interchange was not included in the original scope of work of the contractor and were actually part of Shorkot – Khenewal Section of M-4. The said works were even beyond the construction limits of the project. Due to delay in tendering, award & revision in scope of Shorkot – Khenewal Section of Motorway M- 4 under financing of ADB, the project of M – 4 Extension could not have been made operational if the said loops/ramps were not constructed as part of this project.

The reply was not tenable because execution of entirely new work of Rs 713.51 million beyond PC-I provision and scope of work through variation order # 02 without any tendering was a clear cut violation of prescribed rules, PC-I and contract provision that resulted in an overpayment of Rs 36.89 million.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends early recovery of the overpaid amount.

(DP. 128)

#### **4.4.54 Excess payment due to excessive quantities - Rs 34.20 million**

As per original estimate/BOQ item of bill No.01, “excavation of surplus common material” was provided as 5000 cu.m and formation of embankment from borrow material was also provided for the same quantity i.e. 5,000 cu.m.

The Project “Rehabilitation of Kohala - Muzaffarabad Road “S-2” Package-II (KM 0+020 to 20+035) under ADB Loan No. 2742” was awarded to M/s A.M. Associates at an agreement cost of Rs 782.96 million.

Audit observed that the item of work “excavation of surplus material” was measured up to 10<sup>th</sup> IPC for 39,398.89 Cu.m but the item No.108b formation of embankment from borrow material was measured up to 10<sup>th</sup> IPC as 1,817.40 Cu.m. There was an excess of 37,581.49 Cu.m which resulted into unjustified measurement of item costing Rs 34.20 million (37,581.49 Cu.m x Rs 910/Cum).

Audit holds that excess payment was due to weak internal controls.

Audit took up the matter with the management in July 2015. The Authority replied that in the original estimate/BOQ item Bill No.1 Excavation of surplus common material was given as 5,000 Cu.m and formation of embankment of borrow material was given as 5,000 Cu.m. The excavation was mainly given for widening of carriageway from 6.1 meter to 7.3 meter i.e (0.6 meter either side). The excavation of shoulders was over and above to that to the depth 0.25 meter. The formation of embankment from borrow rock material to the extent of 1,817 Cu.m was for  $7,600 \text{ M} \times (0.6 + 0.6) \times 0.2 = 1,824 \text{ Cu.m}$  paid up to 1,817 Cu.m. The second portion was regarding excavation of shoulders  $28,600 \times 0.25 = 7,150 \text{ Cu.m}$ . The third part was mud creep coming from hill on top of road works out as 30,425 Cu.m at number of location. The mud creep could be used as embankment in formation.

The reply was not tenable because corresponding item was enhanced by 2106% without any justification.

The matter was discussed in the DAC meeting held on 2<sup>nd</sup> February, 2016. Audit informed that quantities of an item of work were enhanced up to 2106% above the BOQ. The Project Director explained that mud creep coming from hill was removed at number of locations due to which quantity was increased. Audit reiterated that during construction period any landslide, snow fall and avalanche is to be removed by the contractor at his own expense as item rate contained such components and accordingly provided in the contract clauses and specifications. The matter could not be concluded despite detail deliberation and Committee pended the Para.

Audit recommends early recovery of the amount involved.

(DP. 218)

#### **4.4.55 Non-recovery of cost of mucking material of modified road tunnel utilized under other relevant work - Rs 33.55 million**

As per rate analysis of stone related items the cost of material was included in the composite rate. It meant that the contractor should arrange stone/material at his own end for execution of stone related items. In case of utilization of material excavated from tunnels/structures its cost should be recovered from the contractor.

Audit observed during examination of the record of Lowari Tunnel Project, Dir produced consumption statements, that 47,927 cu.m mucking material, excavated from modified road tunnel was utilized in the shotcrete, lean concrete, concrete class A1, concrete class A3 & G28 and no-fines porous concrete and claimed under IPC-47, 49, 50 & 51. However, cost of utilized mucking material was not evaluated/recovered/adjusted so far. This caused non-recovery of cost of mucking material amounting to Rs 33.55 million (47,927 cu.m @ Rs 700 per cu.m) approximate.

Audit holds that non-recovery of cost of mucking material occurred due to non-watching of Government interest properly and lack of internal and financial controls.

Audit pointed out non-recovery in October 2015. The Authority replied that the mucking material was utilized in stone related items and paid accordingly. The rate of item of formation of embankment PS-20 was without the cost of excavation.

The reply was not tenable because item PS-20 was only for formation of embankment with mucking material whereas in other concrete items the cost of excavation was to be recovered as cost of stone was included in the concrete work.

The matter was discussed in DAC meeting held on 2<sup>nd</sup> February, 2016 wherein General Manager concerned conceded that due recovery would be determined and made from the contractor. The Committee directed that recovery be effected and got verified from Audit.

Audit recommends early recovery of the amount involved.

(DP. 178)

#### **4.4.56 Overpayment due to allowing higher rates for additional work/excess quantities - Rs 5.78 million**

According to clause 52.2 of the contract agreement, no change in the unit rate of price quoted shall be considered for item included in the schedule of Day work Rates notwithstanding the quantity of work performed under such schedule. Provided further that no change in the Unit Rates or prices quoted shall be considered for any item in the schedule to the Bill of Quantities, unless such item individually accounts for an amount more than *two percent* of the sum named in the Letter of Acceptance, and the actual quantity of the work performed under the item exceeds or falls of the original billed by more than *30 percent*.

As per NHA Executive Board's decision in 239<sup>th</sup> meeting held on 25<sup>th</sup> September, 2014 (Agenda Item No.03) additional work costing Rs 125.17 million at K.M 84+500 to K.M 136+000 of the project was approved on the basis of BOQ rates (NHA-CSR-2000).

Audit noted that the General Manager (Construction) Balochistan, National Highway Authority, Quetta measured and paid additional work valuing Rs 9.92 million upto 23<sup>rd</sup> IPC. Audit observed that higher rates than BOQ rates amounting to Rs 4.14 million were allowed. This resulted in an overpayment of Rs 5.78 million.

Audit pointed out overpayment in October 2015. The Authority replied that the rates of additional works were recommended by the committee as CSR 2005 + 15% as recommended for the adjacent project. The V0#03 was prepared according to these rates and then recommended by all NHA authorities and presented in the Executive Board in September

2014. The rates were approved as BOQ rates for additional works. The additional works carried out at site before the final approval of NHA Executive Board were paid at CSR 2005 + 15% as per recommendations of NHA authorities. Now these works would be paid/adjusted as per BOQ rates, approved by NHA Executive Board in September 2014. The recovery for the already paid additional works calculated as Rs 2.20 million. This recovery would be made in the upcoming IPCs of the contractor.

The reply was not tenable because higher rates were allowed rather than the pricing of the non-BOQ items in pursuance of the provision of contract.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends that overpaid amount may be recovered from the contractor.

(DP. 309)

#### **4.4.57 Overpayment due to allowing water charges on value of quantities exceeding BOQ - Rs 22.10 million**

According to NHA Board decision in 148<sup>th</sup> meeting held on 5<sup>th</sup> May, 2007, the Planning Commission decided that FWO will not charge any amount against security and additional items of work. Water charges shall be admissible @ Rs 0.22 per liter with a total quantity of four billion liters amounting to Rs 0.88 billion.

Audit noted that General Manager (Construction) Balochistan, National Highway Authority, Quetta allowed payment for water charges as additional cost effect due to scarcity of water at percentage basis of value of work done by taking ratio of total contract cost and amount of water charges approved by the Planning Commission (Rs 880.00 million/ Rs 16,574.02 million x 100=5.30952%).

Audit observed that instead of allowing payment for water charges for approved quantity at given rate, payment was allowed @ 5.30952% of value of work done including cost of quantities exceeding BOQ provisions.

Audit holds that allowing of water charges against value of quantities exceeding BOQ on percentage basis was not admissible in the light of approval by the Planning Commission. But payment of water charges was allowed on value of quantities exceeding BOQ. This resulted in an overpayment of Rs 22.10 million (Rs 416.24 million x 5.30952%).

Audit pointed out overpayment in October 2015. The Authority replied that any work even beyond the BOQ involves for the permanent works are entitled for the payment of water charges as per original rate otherwise contractor may claim additional cost of water charges as these quantities are carried out in this current financial year whereas cost of water charges was approved in year 2007.

The reply was not tenable because water charges were payable to the contractor as provided in the BOQ/PC-I and no such charges were payable on additional work.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends early recovery of the overpaid amount.

(DP. 304)

#### **4.4.58 Less recovery of rebate - Rs 20.49 million**

According to acceptance letter issued vide No.2 (340-01)/GM (P&CA)/NHA/09/1245 dated 10<sup>th</sup> August, 2009 rebate @ 8.9605% was to be recovered from the payments of contractor.

Audit noted that Project Construction of Road from Gharo to Keti Bunder Package-I (Gharo-Mirpur Sacro KM 00+000 – 24+000) was

awarded to M/s Qasim Khan & Co. at an agreement cost of Rs 746.58 million and upto IPC-17 payment of Rs 764.89 million has been made to contractor on account of work done.

Audit observed that from Bill No.1, 2, 3, 4B and 7 rebate @ 8.9605% was not deducted from the total value of work done. This has resulted into less deduction of rebate of Rs 20.49 million.

Audit pointed out the less recovery of rebate in September 2015. The Authority replied that the rebate deduction was applied on original BOQ items therefore, rebate on all bill items of BOQ (Excluding PS) @ 8.9605% has already been deducted upto IPC No.17. The rebate was applied on only original BOQ items and not applied on revised rate and new items.

The reply was not tenable because in support of reply no reason for non-recovery of rebate on non-BOQ item has been explained. Rate analysis of non-BOQ item was also not produced to Audit for verification.

The matter was discussed in the DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January 2016, wherein Audit informed that rebate was applicable on the non-BOQ rates which was not done and caused less deduction of rebate. NHA explained that rebate was offered by the contractor on BOQ only which was not applicable on the revised rates of the items. Audit reiterated that the contractor won the bid after quoting the rebate on his quoted rates, therefore, in order to maintain the sanctity of bidding this rebate should have been applied on varied work/non-BOQ items. As contract rates were set out after deduction of the rebate. The Committee directed that detail justification of the insertion of the non-BOQ items and determination of the revised rates outside the contract be provided for verification.

The compliance of DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends early recovery.

(DP. 52)



#### **4.4.59 Overpayment due to separate /additional payment for cutting picks/tool beyond agreement provision - Rs 20.82 million**

As per preamble clause 5, the whole cost of complying with the provisions of the contract shall be included in the item provided in the priced BOQs and where no items are provided, the cost shall be deemed to be distributed among the rates and prices entered for the related items of work.

Audit observed that General Manager, National Highway Improvement Programme (Contract-13, Kharian-Rawalpindi) NHA allowed and paid an amount of Rs 20.82 million against additional claim, cost of additional cutting picks/tools which was not provided in the BOQ of the work. This resulted in an overpayment of Rs 20.82 million.

Audit pointed out the overpayment in November 2014. NHA replied that the original design provided for resurfacing of contract-13 Section having length of 51.7 km of existing 2-lane dual carriageway section of N-5 between Kharian and Rawalpindi using the Form Bitumen (FB)/Cold Recycling (CR) process. This technology was being used for the first time in Pakistan and therefore neither the employer nor the consultant and the contractor had any previous experience of use of this specialized equipment. The contractor has catered for the training of his staff on use of equipment, its maintenance requirement and design aspect. The manufacturers of this equipment (Germany) advised the contractor on various aspects of the FB/CR technology including the requirement of additional cutting tools (bits) for the cold millers. However, this advice was based on recycling of asphalt pavement in Europe, where relatively soft aggregate material is used. During site trial at C-13 and subsequent execution of work, it was found that the aggregate material used in existing pavement was much harder and bits started wearing out much quickly than anticipated. This situation was unforeseeable by the contractor as he had no experience on this technology. The contractor, therefore, agitated for reimbursement of additional cost under clause 12.2 of the contract agreement. The contractor's request was evaluated by the Engineer as per contract and considered genuine, therefore, additional

payment of Rs 20.82 million was allowed. It is to be noted that the use of FB/CR technology has resulted in about 40% deduction in the cost.

The reply was not tenable as payment was not covered under contract agreement and no approval of variation was provided to Audit.

The matter could not be discussed in DAC meeting despite efforts made by Audit.

Audit recommends investigation in the matter for making payment beyond the contract provision without the approval of competent forum, besides effecting recovery at the earliest.

(DP.389/2014-15)

#### **4.4.60 Unjustified payment of bonus to the contractor - Rs 20.55 million**

Clause 47.4 of Condition of Particular Application of Contract Agreement provides that, “if the contractor achieves completion of the works prior to the relevant time prescribed by Clause 43.1, the Employer may pay to the contractor a sum as Bonus @ 0.025% of contract price for each day of early completion up to maximum of 5% of contract price.” The work of Contract-2-A, Hala-Chanser Bridge and 2-B Chanser Bridge –Moro (Rehabilitation works), NHIP commenced on 28<sup>th</sup> September, 2004, and as per Clause 43.1, 24 months’ time was provided in Appendix-A to contract for completion. The works were required to be completed by 27<sup>th</sup> September, 2006, and payment of bonus was, therefore, admissible only in case the contractor completed the work prior to the stipulated date.

Audit noted that General Manager, NHIP, National Highway Authority paid a bonus for early completion of both the contracts as under:

<b>Vr. No.</b>	<b>Date</b>	<b>Work</b>	<b>Bonus (Rs in million)</b>
03	03.03.2009	Hala-Chanser Bridge (C-2A)	3.12
05	02.03.2009	Chanser Bridge –Moro C-2B)	17.43
		<b>Total</b>	<b>20.55</b>

Audit observed that the bonus was paid to the contractors without completion of works in accordance with the particular provisions, as both the works were still to be rectified/completed by the contractors.

Audit further observed that for contract No. 2B for which 40 days' time extension from 28<sup>th</sup> September to 6<sup>th</sup> November, 2006 was granted on 28<sup>th</sup> May, 2007, the work was shown actually completed on 2<sup>nd</sup> of July, 2006. Payment of early bonus for the period from 28<sup>th</sup> September to 6<sup>th</sup> November (40 days i.e. extended period) was also questionable. This resulted in unjustified payment of Rs 20.55 million.

Audit pointed out the unjustified payment in November 2014. NHA replied that the contractor achieved completion of the project prior to period as defined in clause 43.1 which states that time for completion from the commencement date or such extended time as may be allowed under clause 44.

The reply was not tenable because contractor could not complete the work within original stipulated period and extension of 40 days was granted to the contractor without solid reason. Moreover, bonus for period from 28<sup>th</sup> September to 6<sup>th</sup> November (40 days i.e. extended period) was also questionable.

The matter could not be discussed in DAC meeting despite efforts made by Audit.

Audit recommends investigation in the matter for unjustified payment of bonus without actual completion of work in the stipulated period.

(DP.417/2014-15)

#### **4.4.61 Overpayment due to allowing incorrect rates for consultants salary - Rs 20.19 million**

According to clause 6.2(a) (Special Conditions of Contract) of agreement dated 28<sup>th</sup> January, 2008 signed with the consultants, escalation is payable on salary cost only @5% per year fixed percentage of rate enhancement in charged rate shall be effective from 12 months after the date of signing the agreement/mobilization of the professionals as the case may be. This is only payable if this compensation is passed on the employees of the firm at the same rate in their salary plus allowances. An affidavit shall have to be produced to this effect to the satisfaction of the employer.

Audit noted that the General Manager (Construction) Balochistan, National Highway Authority, Quetta paid invoice No.58 to M/s NESPAK for the month of December 2014 during June 2015 for Rs 10.29 million (Up-gradation of Surab-Basima-Nag-Panjgoor-Hoshab Road Section-III). Audit observed that consultant charged man-months at higher rates by adding 10% per year escalation, whereas escalation at the rate 5% was admissible under clause 6.2(a) of the agreement. In this way higher rates for man-month salary were charged. This resulted in an overpayment of Rs 20.19 million.

Audit pointed out the overpayment in October 2015. The Authority replied that the contractor was demobilized in early of the year 2010 and remobilized in October 2013. M/s NESPAK was also requested to supervise the work with the commitment that escalation on salaries shall be 10%.

The reply was not tenable because no amendment was made and approved for enhancement of the escalation from 5% to 10%.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends early recovery of the amount involved.

(DP. 305)

**4.4.62 Overpayment due to non-deduction of earth available from roadway excavation - Rs 19.45 million**

According to NHA General Specification item 108-C Formation of Embankment from Borrow Excavation, the quantities to be paid for shall be the number of cubic meters calculated on theoretical designed lines and grades and the ground levels as established under clause 100.9, compacted in place, accepted by the Engineer. The Measurement shall be made as under:

Formation from Borrow = Total Embankment Quantity (minus) Roadway excavation Quantity (minus) structural excavation Quantity.

Audit noted that the General Manager (Construction) Baluchistan, National Highway Authority, Quetta measured and paid item of work 108c formation of embankment from borrow excavation. Audit observed that available earth from roadway/structural excavation was not deducted from a quantity of borrow excavation to arrive at net payable quantity as per specification. This resulted in an overpayment of Rs 19.45 million as under:

<b>Project/ Section Name</b>	<b>Quantity</b>	<b>Amount (Rs)</b>
Construction of left over Works of Gwadar Ratodero Road, Project, Gwadar Turbat, Section-I, Package-II-A (M-8)	14893.25/cu.m @ 871.05	12,972,765
Gwadar Ratodero Road Project (M-8) Section-IV (Khuzdar Shahdadkot), Package-V	20,306.59 /cu.m @ 200.87	4,078,985
Construction of left over Works of Gwadar Ratodero Road, Project, Gwadar Turbat, Section-I, Package-II-B (M-8)	2754.98/cu.m @ 871.05	2,399,734
<b>Total</b>		<b>19,451,484</b>

Audit pointed out the overpayment in October 2015. The Authority did not reply.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends early recovery of the amount involved.

(DP. 306)

#### **4.4.63 Overpayment due to payment at higher rates - Rs 28.00 million**

As per contract agreement (BOQ) of the work “Faisalabad-Khanewal Motorway Project (M-4) Faisalabad-Gojra Section Package-I”, the item 702 (a) “provide Employer’s and Engineer’s office & residence” was provided at a lump sum cost of Rs 22.00 million.

Audit noted that the General Manager/Project Director made payment of Rs 50.00 million to the contractor on account of item No.702(a) provide Employer’s & Engineer’s representative office and residence.

Audit further noted that in the original BOQ Bill No.7 item No.702(a) “provide employer’s & engineer’s representative office and residence” was provided as lump sum provision of Rs 22.00 million. The said provision was unauthorizedly enhanced to Rs 50.00 million in the revised BOQ No.2.

Audit holds that revision of item was unjustified because said item was provided in lump sum provision as agreed between contractor and NHA, therefore, contractor had to execute the said item within the agreement amount. Revision of lump sum provision was in violation of agreement clauses. This resulted in an overpayment of Rs 28.00 million.

Audit pointed out the overpayment in August 2015. The Authority replied that covered area and other specifications for Engineer’s Office and Residence were defined in the Particular Specifications of the M-4

Package-I contact. Covered area of 1,150 Sq.m was specified for Supervisory Consultants at M-4 Package-I against a lump sum provision of Rs 22.00 million in the Bill No 7. This area was provided for Resident Engineer Package-I and his staff, whereas, area for Team Leader/CRE and his staff were not provided. Therefore, the area was increased to 2,040 Sq.m to cater for Team Leader/CRE and his staff and additional amount of Rs 28.00 million was approved as variation.

The reply was not tenable because lump sum provision once agreed could not be enhanced, the contractor was required to execute the Employer and Engineer's representative office and residence with the amount as agreed in the agreement. Moreover, the amount paid was 345.54% excess than provision of PC-I, which was not justified.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends early recovery and fixing of responsibility against the person(s) responsible.

(DP.159)

#### **4.4.64 Non-recovery of cost of below specification work - Rs 24.49 million**

According to clause 11.4 of the contract agreement, "if the contractor fails to remedy any defect or damage by the notified date and this remedial work was to be executed at the cost of the contractor under sub-clause 11.2 (Cost of Remedying Defects), the employer may (at his option) (b) require the Engineer to agree or determine a reasonable reduction in the contract price in accordance with sub-clause 3.5 (Determinations).

Audit noted that M&I Wing, NHA inspected the project at the time of final handing/taking over and issued report on 10<sup>th</sup> December, 2014. The said report indicates that item of work "Rip Rap Class-B" was not executed as per required standards because of less weight of stone,

improper grouting and thickness and recommended in para 8.3 of the said report to recover an amount equivalent to 20% of the rate of Rip Rap Class-B besides imposition of penalty @ 10% of invoices paid to the supervisory consultants but no such recovery was made. This resulted in non-recovery of Rs 24.49 million (Rs 23.79 million+ Rs 699,014).

Audit holds that non-recovery occurred due to lack of oversight mechanism for implementation of internal controls.

Audit pointed out the non-recovery in August 2015. The Authority did not reply.

The matter was discussed in DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January, 2016 wherein NHA explained that agreed amount of Rs 18.17 million was recovered from the contractor. DAC directed NHA to get the recovered amount reconciled and verified from Audit within 15 days.

The compliance of DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends early compliance of DAC's directives.

(DP.136)

#### **4.4.65 Overpayment in violation of NHA Specifications - Rs 20.33 million**

NHA Specification No.107.1 denotes that Structural excavation shall include the removal of all material of whatever nature, necessary for the construction of foundations of bridges, culverts, retaining walls, headwalls, wing walls, catch basins, manholes, inlets and other structures not otherwise provided for in these specifications and in accordance with the plans or as directed by the Engineer. It shall include the furnishing of all necessary equipment and construction of all cribs, cofferdams, caissons, dewatering, sheeting, shoring etc., which may be necessary for the execution of the work. It shall also include the subsequent removal of cofferdams and cribs and the placement of all necessary backfill. It shall



also include the disposing of excavated material, which is not required for backfill, in a manner and in locations so as not to affect the carrying capacity of any channel and not to be unsightly.

Audit noted that the projects under FERP “Rehabilitation of Chakdara-Kalam Road (N-95) Package-I” and “Madyan to Bahrain Package-II” were awarded to M/s Zahir Khan & Brothers and M/s Techno Time Construction Company. Audit observed that Item No.107 under bill No. 04 “structural excavation” was measured and paid accordingly. Audit further observed that in the original BOQ of Package-I the item of back fill was provided initially and paid @ Rs 500 per Cu.m which was measured and paid 18,849.247 Cu.m for Rs 8.42 million which was latter on recovered as the same item was not admissible under specification but it was astonished to point out that the same tem was manipulated and by Variation Order as non-scheduled item “back fill behind retaining walls from structural excavation (all types of soil including rock)” was measured for 10,499.861 Cu.m paid for Rs 10.49 million.

Audit further observed that item of back fill around the retaining wall was paid under item No.108 as 19,676 Cu.m @ Rs 500/Cu.m for Rs 9.84 million in Package-II Madyan to Behrain (KM 89+700 to 97+310). Audit is of the view that this item of back filling around the structure was included in item of structural excavation, back fill, and its disposal. The payment made in contradiction to specification resulted in an overpayment of Rs 9.84 million.

This resulted in an overpayment of Rs 20.33 million (10.49+9.84).

Audit observed that the overpayment was made due to weak technical and internal control and willful negligence by the officers.

Audit pointed out the violation in September 2015. The Authority replied that the rate of this non-scheduled item was not in the original contract BOQ in accordance with NHA General Specifications. Alterations were made to ensure that the work could be measured and accounted for as required in NHA general specifications.

The reply was not tenable as item 107 “structural excavation” contained the component of back filling and accordingly this item was not provided in the TS estimate/BOQ; therefore, its insertion through variation order was unjustified and undue favour to contractor at the cost of public ex-chequer.

The matter was discussed in DAC meeting held on 2<sup>nd</sup> February, 2016. Audit informed that backfilling behind the retaining wall was provided in the BOQ and measured and paid to the contractor but subsequently said item was deleted and new item backfilling from the structural excavation was introduced and paid at higher rate than CSR on which the contract rates were set out. NHA explained that the engineer determined the rate as per provision of contract. The matter could not be concluded despite detailed deliberation and Committee pended the Para.

Audit recommends early recovery of the overpaid amount.

(DP. 235, 247)

#### **4.4.66 Unjustified payment on account of maintenance of hospitals without provision of buildings - Rs 17.84 million**

According to SP-12.1 of contract agreement of Construction of Lowari Tunnel, two buildings for establishment of hospitals at southern and northern portal areas (with a minimum floor area of 200 sq.m each) were to be provided and according to SP-12.2 both hospitals (southern and northern portal area) were to be maintained/equipped.

Audit observed during audit of Lowari Tunnel Project NHA Dir that buildings for establishment of hospitals at both portals, against which lump sum amount worth Rs 4.68 million (Rs 2.31 million + Rs 2.37 million) was quoted by the contractor, were not provided at site as no payments on this account was made up to IPC-51. However, maintenance cost against the both hospitals was paid for Rs 17.84 million for 67.307 months @ Rs 265,100 per month. In absence of provision of buildings for establishment of hospitals the payment of maintenance cost amounting to Rs 17.84 million was not admissible.

Audit holds that unjustified payment was made due to non-adherence to contractual provision and ineffective internal controls.

Audit pointed out unjustified payment in October 2015. The Authority replied that owing to limited space available at South and North Platform of Tunnel, the construction of Hospital was not possible on both sides and thus not paid to contractor against the pay item. Accordingly, the contractor has provided the similar facility in its own structure/building i.e. Doctor, Medicine, Oxygen etc and thus was paid against SP-12.2.

The reply was not tenable because the hospital was not constructed as per provision of contract, therefore, incurring of expenditure on account thereof without availability of facility was unjustified.

The matter was discussed in the DAC meeting held on 2<sup>nd</sup> February, 2016. The General Manager concerned informed that the construction of hospital was not possible on both sides and thus not paid to contractor against the pay item. Accordingly, the contractor had provided the similar facility in his own structure/building i.e. doctor, medicine, oxygen etc and thus paid against SP-122. Audit contended that health facilities were to be provided in the constructed building/established hospital, therefore, payment without provision of building was unjustified. The establishment of hospitals on both portals was mandatory requirement during the execution of the project and afterward operation of the tunnel as per special provision of the contract. The Committee directed that complete record pertaining to non-provision of this facility/establishment of hospitals and incurring of the expenditure against thereof may be got verified.

Audit recommends that implementation of contract clause regarding establishment of hospitals may be ensured.

(DP. 186)

#### **4.4.67 Unjustified inclusion of 6% income tax in contract amount of the consultant - Rs 15.97 million**

Rule 10 (i) of General Financial Rules (Vol-I) provides that every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

Audit noted that M/s NESPAK was the only evaluated consultant among the four bidders that participated in the bidding process for technical and financial evaluation for consultancy of Motorway (M-4-Extension) from Khanewal to Multan (57 KM) but financial bid of M/s NESPAK only was opened and others were rejected.

Audit observed that after opening of financial bid, the Authority included 6% income tax amounting to Rs 15.97 million on competitive components of Rs 250.14 million for payment to the consultant on the plea that consultant had not quoted its rates including income tax. However, instructions to bidders indicated that the rates offered by the bidders should have been inclusive of all taxes.

Audit holds that the violation occurred due to inadequate oversight mechanism for effective implementation of internal controls that put an undue burden on the public exchequer.

Audit pointed out the irregular award of work in August 2015. The Authority did not reply.

The matter could not be discussed in DAC meeting despite best efforts made by Audit.

Audit recommends early recovery and fixing of responsibility against the person(s) responsible.

(DP. 131)

#### **4.4.68 Excess payment due to unjustified increase in cost of general items - Rs 13.12 million**

Rule 11 of GFR (Volume-I) provides that each head of department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant rules and regulations both by his own office and by subordinate disbursing officers. Rule 12 ibid further states that a controlling officer must see not only the total expenditure is kept within the limits of the authorized appropriation but also that the funds allotted to spending units are expended in the public interest and upon objects for which the money was provided.

**4.4.68.1** Audit noted that the project under FERP “Rehabilitation of Chakdara-Kalam Road (N-95) Package-I Fatehpur to Madyan (KM 82+000 to 89+700) awarded to M/s Techno Time Construction at Project cost of Rs 912.45 million. Audit observed that work was awarded with completion period of one year. The last extension was granted by the Chairman NHA up to 19<sup>th</sup> November, 2014, with the cost impact of Rs 4.60 million but the same was still not finalized. Due to this delay the cost of provisional sum (General Items) was increased from Rs 15.02 million to Rs 26.65 million involving excess of Rs 11.63 million (26.65 - 15.02) i.e. 77.41% above the its original provision. Audit was of the view that negligence at the part of contractor/management put the Authority into a loss of Rs 11.63 million.

(DP. 236)

**4.4.68.2** The project under FERP “Rehabilitation of Chakdara-Kalam Road (N-95) Package-II Madyan to Behrain (KM 89+700 to 97+310) awarded to M/s Zahir Khan & Brothers – M/s Techno Time Construction Company at Project cost of Rs 915.23 million. The work was awarded and to be completed within the period of 01 year. As per agreement/BOQ no general items/provisional sum was provided for this package.

Audit observed that an amount of Rs 1.49 million was paid as General Items under bill No.07. Extension of time was granted to contractor by the Chairman NHA up to 28<sup>th</sup> February, 2015 without any

financial impact allowed by the Authority so the payment made on account of provisional sum/general items was unjustified and resulted into an overpayment of Rs 1.49 million.

Audit holds that the excess payment to the contractor was due to weak internal controls.

Audit took up the matter with the management in September 2015. The Authority did not reply.

The matter was discussed in the DAC meeting held on 2<sup>nd</sup> February, 2016. DAC showed its concern over abnormal increase in the payment of general items within a short extended period. DAC directed that an inquiry be conducted to probe the reasons and justification for increase in cost during the extended period within one month.

The compliance of DAC's directive was not made till finalization of this Audit Report.

Audit recommends for early compliance of DAC's directive.

(DP. 237)

#### **4.4.69 Overpayment due to higher rate - Rs 10.42 million**

In the NHA Composite Schedule of Rates 2008 for the district Sadiu Sharif (Swat), rate for an Item No.108d "formation of embankment from structural excavation" is Rs 105.37 per cum.

The work under FERP "Rehabilitation of Chakdara-Kalam Road (N-95) Package-I Fatehpur to Madyan (KM 82+000 to 89+700) was awarded to M/s Zahir Khan & Brothers – M/s Techno Time Construction Company at Project cost of Rs 912.45 million. Audit noted that the Item of formation of embankment from structural excavation was measured for a quantity of 26,411 cum and paid as non-schedule item @ Rs 500 per cu.m despite the fact that structural excavation was paid as per scheduled item

107. The payment of CSR items as non-schedule item resulted in an overpayment of Rs 10.42 million.

Audit holds that as excavation was paid on scheduled rate, therefore, backfilling should have been paid on Schedule Rate.

Audit took up the matter with the management in September 2015. The Authority did not reply.

The matter was discussed in the DAC meeting held on 2<sup>nd</sup> February, 2016. Audit informed that an item formation of embankment from structural excavation was introduced as non-schedule item at higher rates than CSR on which the contract rates were set out. NHA explained that the engineer determined the rate as per provision of contract. The matter could not be concluded despite detailed deliberations and Committee pended the Para.

Audit recommends early recovery of the amount involved.

(DP. 249)

#### **4.4.70 Unnecessary procurement of equipment without requirement - Rs 10.00 million**

National Highway Authority issued a requisition to FWO for provision of Nuclear Density Meter and Asphalt Mix Testing equipment for rutting in November 2006 which was received in December 2007 through Project Director, Lyari Expressway Project. Para 44 of Chapter-2 of NHA Code provides that it shall be mandatory to obtain Admn and financial approval of the competent authority, the competent authority shall ensure that the work is of real necessity.

Rule 10 (ii) of GFR (Vol-I) provides that the expenditure should not be prima facie more than the occasion demands.

Audit noted during review of the inventory statement prepared by the Highway Research Training Centre (HRTC) management that an

equipment namely 'Nuclear Density' (Troxler Germany) (2 Nos.) was procured/received in August, 2008 and installed at HRTC Laboratory in 2012. During discussion with the concerned it was learnt that usage of this equipment for outdoor testing requires special permission/certificate from Pakistan Nuclear Regulatory Authority which will be operated by special trained technicians. Due to non-fulfillment of these pre-requisites the said equipment could not be utilized since its procurement.

Audit holds that said equipment was procured without consideration of its mandatory permission and expenditure incurred thereon proved futile. Case file of procurement and its related record is requisitioned which was not available in HRTC.

Non-adherence to rules caused unnecessary procurement of equipment valuing Rs 10.00 million which is ultimate loss to the Authority.

Audit pointed out loss due to unnecessary procurement in April 2015. The Authority replied that procurement process of this equipment is to be regulated through Pakistan Nuclear Regulatory Authority since no notification of such equipment to this end was received by NHA earlier. Notification was disclosed by the custom authorities at Karachi Port while clearing the equipment. Policy is underway where this equipment will be brought under regular use on NHA projects.

The reply was not tenable because the equipment procured in 2007 could not be utilized which indicated that said procurement was made without any immediate necessity, proper planning and unawareness about the pre-requisites, mandatory requirements of usage of equipment.

The matter was discussed in DAC meeting held on 2<sup>nd</sup> February, 2016. Audit informed that two Nuclear Density Troxler were procured in 2007-08 and stored in HRTC laboratory and since then it was not utilized due to non-fulfillment of prerequisites mandatory from PNRA. The Authority conceded that this equipment was not utilized for outdoor



testing because it required special licence from PNRA and operated through special trained technicians. The Committee showed displeasure for non-utilization and procurement of equipment without any immediate necessity and directed Member (Planning) to hold a Fact Finding Inquiry for fixing responsibility of unnecessary procurement, non-utilization and disposal thereof in the interest of Authority.

Audit recommends fixing of responsibility against the persons at fault.

(DP. 121)

**4.4.71 Non-recovery of flood damages from insurance company - Rs 9.92 million**

According to clause 21.1(b) of the contract agreement, the Contractor shall, without limiting his or the Employer's obligations and responsibilities under Clause 20, insure:

- (a) the Works, together with materials and Plant for incorporation therein, to the full replacement cost (the term "cost" in this context shall include profit),
- (b) an additional sum of 15 per cent of such replacement cost, or as may be specified in Part II of these Conditions, to cover any additional costs of and incidental to the rectification of loss or damage including professional fees and the cost of demolishing and removing any part of the Works and of removing debris of whatsoever nature, and
- (c) the Contractor's Equipment and other things brought onto the Site by the Contractor, for a sum sufficient to provide for their replacement at the Site.

Further clause 21.2 of the contract agreement, the insurance shall be in the joint names of the contractor and employer shall cover the all loss of damage from whatsoever cause arising, other than as provided in

sub-clause 21.4, from the start of work at the site until the date of issue of the relevant taking over certificate in respect of the works, or any section or part thereof as the case may be.

Audit noted that General Manager (Construction) Balochistan, National Highway Authority, Quetta paid an amount of Rs 9.92 million to contractor on account of flood damages approved through variation orders but insurance claims have not been lodged with the insurance company to make good the flood damages. This resulted in non-recovery of Rs 9.92 million.

Audit pointed out non-recovery of insurance in October 2015. The Authority replied that an unprecedented and unusual flood was witnessed in June 2007, which damaged the different component of NHA road structure. The Contractor submitted a claim to the Engineer for flood damages under the plea of faulty design. The Engineer in his decision under clause 67.1 of COC verified only 43% amount of Contractor's claim which he considered that these damages are not covered under insurance of the project.

The reply was not tenable as insurance policy contained the risk coverage of flood, earthquake, Tsunami, fire, rain, storm, landslides; therefore, a claim was required to be lodged to the insurance company for the expenditure incurred on the rectification of defects, removal of landslides, restoration of road work due to damage caused by flood.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends fixing of responsibility against the person at fault.

(DP. 308)

#### **4.4.72 Overpayment due to unauthorized measurement of access roads - Rs 9.46 million**

Clauses 11.1 and 42.3 of the contract (Conditions of Contract Part-I) provides that the contractor shall be deemed to have inspected and examined the site and its surroundings having regard to consideration of cost and time before submitting to tender as to the means of the access to site and the accommodation he may require and the contractor shall bear all costs and charges for special or temporary right of way in connection with access to the site.

Audit noted that National Highway Authority awarded a work “Construction of Shatial-Thor Nullah Bypass (Relocation of KKH) including link road to existing KKH” to M/s Hakas (Pvt.) Ltd. on 23<sup>rd</sup> September, 2012 at an agreed cost of Rs 3,518.13 million.

Audit observed that the Project Director (Shatial-Thor Nullah Bypass (STNBP) NHA measured a quantity of 15,551.09 Cu.m under BOQ Item No.106 c & d (unclassified excavated surplus material) in IPC-3 for access to the site of work. Audit further observed that the measurement on account of access road was covered under other BOQ items. Hence, the excavation on this account was not required to be measured and paid. Measurement beyond agreement resulted in an overpayment of Rs 9.46 million (15,551.09 x Rs 608 per Cu.m).

Audit holds that overpayment was made due to non-adherence to the provisions of preamble to the BOQ and weak internal controls.

Audit pointed out the overpayment in August 2015. The Authority replied that the Engineer decided the issue of access road payment in favour of the contractor under clause 67.1 of COC which has been disagreed by the Employer and notice of intention to commence arbitration has been issued by the employer and the matter shall be decided in the light of decision by the arbitrator.

The reply was not tenable as in pursuance of clause of 11.1 and 42.3 the preparation of access to site of work is the responsibility of contractor.

The matter was discussed in the DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January 2016, wherein Audit informed that the item 106c&d unclassified excavated surplus material was measured /paid on account of making access roads to site of work which was not admissible. As per clause 11.1 and 42.3 the contractor shall be deemed to have inspected and examined the site before submission of bid by taking into account the means of access to the site, and contractor shall bear all cost and charges for special or temporary right of way required by him in connection with access to the site. NHA explained that engineer decided the issue of access road payment in the favour of contractor and employer issued notice for commencement of Arbitration. The Committee pended the para till decision of the Arbitration.

The compliance of DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends early recovery of the overpaid amount.

(DP. 01)

**4.4.73 Overpayment due to non-adherence to approved drawing design and adoption of extra width than approved cross section - Rs 8.64 million**

As per approved Typical Cross section/drawings width of 2 lane carriageway was 7.30 meter wherein item 305 Asphalt Wearing Course was to be laid/measured.

Audit noted during review of accounts record of project "Construction of Additional Carriageway of Indus Highway (N-55) Sehwan-Khairpur Nathan Shah-Ratodero (JICA Loan PK P-55)" that measurement sheet of IPC -30 indicated that extra width was measured for item 305A asphalt wearing course than approved cross section.

Non-adherence to approved drawing design and adoption of extra width than approved cross section resulted in an overpayment of Rs 8.64 million.

Audit holds that the overpayment was due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the irregularity in August/September 2015. The Authority replied that just like other items of pavement asphaltic wearing course has also been measured and subsequently allowed for payment strictly as per contract area and volume have been computed as per approved roadway cross-section. Top width of asphaltic wearing course is 7.3 m whereas its bottom width is 7.4 m with area of 0.368 m (as per approved X-Section the slope of 1:1 was provided.)

The matter was discussed in the DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January 2016, wherein Audit informed that asphalt wearing course was to be laid by adopting 7.3 meter clear width of the pavement whereas it was laid in 7.35 meter by taking 0.05 meter additional width of slope. NHA explained that payment has been allowed strictly in accordance with approved x-section of roadway. Top width of asphaltic wearing course is 7.3 m whereas its bottom width is 7.4 m with area of 0.368 m. Audit reiterated that additional payment of slope was not neither measureable nor payable to the contractor and its rate deemed included in the bid price. The Committee directed that matter may be referred to independent engineering body for clarification.

The compliance of DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends early recovery of the overpaid amount.

(DP.98)

#### **4.4.74 Overpayment due to inadmissible item of Seal Coat - Rs 8.16 million**

As per NHA Book of Specification No. 304.3.9 Seal Coat/ Tack Coat is applied to ensure chipping retention when surface dressing on a very hard surface.

During scrutiny of contract record relating to two periodic maintenance works executed by GM North NHA Sukkur audit observed that 13 centimeter road structure was removed through cold milling on the total length. Thereafter Seal Coat was applied in addition to tack coat before laying of asphaltic base course.

Audit holds that after removal of 13 centimeter road structure for bond purpose, only tack coat was to be applied before laying of asphaltic base. Payment of inadmissible item resulted in an overpayment of Rs 8.16 million to contractor.

Audit holds that irregularity occurred due to non-adherence to the rules/ regulations and weak internal controls.

Audit pointed out the irregularity in October 2015. The Authority replied that both the items 303 & 304 are part of original estimate/BOQ and design depending upon their requirement at site, as function of both the items is different. Further, after removal of 13cm existing asphalt, out of 29cm of existing Asphaltic Surface, the sever cracks were still visible for which provision of Seal Coat was inevitable to fill the cracks before laying Asphaltic layers otherwise the cracks will reflect over the newly laid Asphalt within no time.

The reply was not tenable because after cold milling asphaltic base course and wearing course was laid over the existing surface and in addition of these items alongwith tack coat and prime coat, the payment of seal coat was not justified. Existence of cracks below the road surface was pre-determined at the time of estimation which is not acceptable.

Nowhere, in NHA the provision of seal coat was made in such periodic maintenance works.

The matter was discussed in DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January, 2016 wherein NHA explained that the item was executed as per site requirement. DAC directed NHA to get the design/drawings of existing road alongwith detailed estimates of the works verified from Audit within seven days.

The compliance of DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends early compliance of DAC's directives.

(DP.153)

#### **4.4.75 Overpayment due to inadmissible payments to the consultants - Rs 8.00 million**

According to Clause-6.2 (a) (b) of the contract agreement of consultant, remuneration will be paid in local currency pursuant to the rate set as per consumer price index by Federal Bureau of Statistics, Government of Pakistan.

According to Rule 10(i) of General Financial Rules (Vol-I), every public officer was expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

Audit noted that consultancy work "Project Management Consultant (PMC) for Flood Emergency Reconstruction Project (FERP)" was awarded to M/S SMEC International Pvt Ltd. Foreign currency was paid to the consultant for 915,821 AUS\$ and 1,008,812 US\$ up to Invoice No. 23 (April 2015). Similarly, local currency was paid to the consultant for Rs 295.23 million up to invoice No. 22 (March 2015).

Audit observed that:

- i. An amount of US \$ 10,074 and AUS \$ 11,759 was paid on account of adjustment of remuneration rates without any provision in the summary of cost (Appendix-C) of the contract agreement and supporting documents. This resulted in an overpayment of US \$ 10,074 and AUS \$ 11,759 (PKR 1.94 million as per prevailing rate on 8<sup>th</sup> June, 2015).
- ii. Remuneration rate adjustment of Rs 6.06 million was paid to the consultant against local currency invoices at the constant rate of 10% without any provision in the agreement.

Audit is of the view that remuneration of the local staff should be based on salary index of the Government instead of consumer price index and should be variable accordingly.

Audit pointed out the violation in September 2015. The Authority replied that Clause 6.2(a) of the Consultancy Contract, remuneration rates of consultancy staff set forth in appendix-D and Appendix-E were to be adjusted after every twelve months. Accordingly, remuneration rates of the international consultancy staff for the period from July 2014 to June 2015 have been escalated by 3.5% in case of foreign staff and 10% in case of local staff by applying the formula.

The reply was not tenable because there was no provision of price adjustment in the summary of cost estimates of contract, therefore, said payment was not admissible.

The matter was discussed in the DAC meeting held on 2<sup>nd</sup> February, 2016. NHA explained that adjustment was made in accordance with agreement. Audit contended that adjustment of foreign remuneration was not covered under agreement while adjustment of local remuneration was allowed at uniform rate of 10% without observing consumer price index. The matter could not be concluded despite detailed deliberation and Committee pended the Para.

Audit recommends that recovery be made.

(DP. 238, 239)



#### **4.4.76 Overpayment due to incorrect measurement - Rs 7.82 million**

According to modified typical Cross Section (type-1) for dry area width of carriageway was 6.1 meter and thickness of Water Bound Macadam was 250 mm. As such cross section area to be applied was 1.525 (6.1 x 0.250). Similarly width of shoulder was 3.6 meter and thickness of Water Bound Macadam 100 mm was to be executed, as such cross section area for shoulder was  $3.6 \times 0.1 = 0.36$ .

Audit noted that Project Director “Construction of Road from Gharo to Ketti Bunder (Package-1) Gharo to Mirpur Sakro” made payment of Rs 117.15 million on account of item Water Bound Macadam.

Audit further noted that cross sectional area for calculation of Water Bound Macadam was applied as 2.332 sqm on both main carriageway and shoulders which was incorrect because actual cross section area to be applied was 1.525 for main carriageway and 0.36 for shoulders. Incorrect measurement of Water Bound Macadam resulted in an overpayment of Rs 7.82 million.

Audit pointed out the overpayment in September 2015. The Authority replied that according to typical X-section the area of Water Bound Macadam as per actual calculated area is 2.250 sqm instead 2.332 sqm applied on normal section. Recoverable/adjustable amount would be recovered in upcoming final bill.

The reply was not tenable because quantity of Water Bound Macadam is to be calculated on main carriageway and shoulders separately because mean X-Section area of both is different. If the mean x-section area calculated by Authority i.e 2.250 is applied on both, main carriageway and shoulder, then overpayment will again occur, therefore separate measurement for main carriageway by applying mean x-section area as 1.590 and for shoulder by applying mean area as 0.66 is to be calculated to avoid overpayment.

The matter was discussed in DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January 2016, wherein NHA explained that due recovery of Rs 3.29 million would be made in upcoming IPC. DAC directed NHA to recover the due amount and get it verified from Audit within one month.

The compliance of the DAC's directives was not conveyed till finalization of this Audit Report.

Audit recommends early compliance of DAC's directives.

(DP. 54)

#### **4.4.77 Overpayment due to non-execution of item in conformance with the contract specification - Rs 7.80 million**

Item 209.3.1 of NHA Specification provides that the quantity for road pavement structure broken and removed, to be paid for shall be measured in cubic meter to a depth as shown on the Drawings/cross-sections or as specified by the Engineer and in the area earmarked by the Engineer for such purpose.

Audit noted during review of the accounts record of project "Construction of Additional Carriageway of Indus Highway (N-55) Sehwan-Khairpur Nathan Shah-Ratodero (JICA Loan PK P-55)", that afore quoted provision of specification was substituted with supplementary specification that "The quantities as measured under item 209a shall be paid for at the contract unit price per square meter of breaking of road pavement structure and per square meter of scarification of existing road pavement structure, for carrying out the works as mentioned above including cost of labour, equipment, tools and incidental necessary to complete these items.

A review of the measurement of above item indicated that item 209a was executed for 118,318.866 Cu.m @ Rs 104.36 p/Cu.m for Rs 12.35 million and item 209b was executed for 912.500 Cu.m @ Rs 38.43 for Rs 35,067 whereas as per provision of Supplementary Specifications/ Estimate both items were co-related and to be measured at

par. This discrepancy showed that either the item 209a may be paid @ item 209b or equal to quantities of the item 209b. As after breaking 118,318.866 sq.m road no excavated material base/sub base was shown utilized which means that only scarification of road pavement was carried out rather than breaking of road pavement structure.

Non-adherence to specification caused an overpayment of Rs 7.80 million as calculated below:

<b>Pay Item No.</b>	<b>Description</b>	<b>Qty Executed</b>	<b>Rate (Rs)</b>	<b>Excess rate paid</b>	<b>Overpayment</b>
209a	Breaking of existing road pavement structure	118,318.87	104.36	Rs 65.93 (104.36-38.43)	Rs7,800,763 (118,318.87*65.93)
209b	Scarification of existing road pavement	912.50	38.43		

Audit holds that the overpayment was made due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the overpayment in August/September 2015. The Authority replied that breaking of existing road pavement structure under pay item 209a and scarification of existing road pavement (pay item 209 b) are two separate activities. In the former case, the Contractor has to excavate the existing road to the depth of 1 m whereas in the latter case only the asphalt up to the depth only 6 inches is scarified. Both of the items of work have been executed separately and at different locations as per site requirement. Payment has also been recommended accordingly.

The reply was not tenable because specification of the item 209-a breaking of existing road pavement was changed by providing particular specification in the contract and unit of measurement was converted from cubic meter to square meter with the condition that both items would have

been executed at par, accordingly provided in the engineer's estimate, BOQ prepared by the consultant and equal quantities were provided of both items whereas the work was not got executed in compliance of the said supplementary specification.

The matter was discussed in the DAC meeting held on 11<sup>th</sup> -12<sup>th</sup> January 2016, wherein Audit informed that quantities of both items 209-a and 209-b were equally provided 158695 Sq. meter each in Engineer estimate/BOQ and as per addendum No.1 supplementary specifications these were measured and paid in square meter whereas as per actual the item 209-b was executed only 912.5 sq. meter @ Rs 38.43 and item No. 209-a carrying higher rate of Rs 104.36 was measured/paid to the extent of 118,318.87 sq. m. which was 12873% above the correlated item No.209-b. This indicated that contractor executed item 209-b whereas item rate was paid for 209-a. NHA explained that both items of work have been executed separately and at different locations as per site requirement. The Committee directed that matter needs to be investigated as to why the work was not got executed in compliance of the engineer's estimate, BOQ and specification.

The compliance of DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends early recovery of the overpaid amount  
(DP. 100)

#### **4.4.78 Non-recovery of execution of below specification work - Rs 7.48 million**

The Inspection Team of NHA Headquarters pointed out certain defects vide letter No.01 (115)Dir(I)/NHA/15-125 dated 14<sup>th</sup> April, 2015.

Audit noted that the project "Phase-I: Rehabilitation of Chakdara Bridge at KM 88 (N-45) Phase-II: Construction of new Bridge was awarded to M/s Mohmand Construction Co with the agreement cost of Rs 481.74 million (VO-I), Rs 472.91 million (VO-II). Audit observed that

following defects were pointed by the Inspection Team and recommended recoveries:

- |  |                          |
|--|--------------------------|
| 1. Recovery of less thickness of asphaltic course = 387.122 x 16,929 | = Rs 6.55 million        |
| 2. Recovery against riprap= 518.612 x 1800                           | = <u>Rs 0.93 million</u> |
| <b>Total</b>   | <b>= Rs 7.48 million</b> |

Audit was of the view that work executed was below specification and should be recovered from the contractor.

Audit pointed out the matter in September 2015. The Authority did not reply.

The matter was discussed in the DAC meeting held on 2<sup>nd</sup> February, 2016. Audit informed that several defects were appeared in the work, therefore, cost of defective work was required to be recovered from the contractor. NHA explained that necessary recovery was made. The Committee directed that recovery may be got verified from Audit.

The compliance of DAC's directive was not made till the finalization of this Audit Report.

Audit recommends early compliance of DAC's directive.

(DP. 243)

#### **4.4.79 Overpayment due to increase of remuneration through variations - Rs 7.05 million**

According to Clause 6.1 (a) of the agreement, an estimate of the cost of services payable in foreign and local currencies were required to be paid as per Appendix D and E. Except, as may be otherwise agreed under Sub-Clause 2.5 and subject to Sub Clause 6.1 (b), payments under the Contract shall not exceed the ceilings in foreign currency in Appendix D and in Local Currency in Appendix-E, excluding adjustments made under Sub-Clause 6.2 (a). The Consultants shall notify the Client as soon as

cumulative charges incurred for the services have reached 80% of either of these ceilings.

Audit noted that the “Consultancy Services for Design Review and Construction Supervision of Sultan Bahoo Bridge over River Chenab between Shorkot and Garh Maharaja Package-VI” was awarded to M/s REC (Pvt.) Ltd. Cost of Consultancy i.e. Salary Cost/Remuneration and Direct (Non-Salary) of Rs 32.37 million (Rs 29.35 million+ Rs 3.03 million) was fixed in the Appendix D and E for Design Review and Construction Supervision of Sultan Bahoo Bridge over River Chenab between Shorkot and Garh Maharaja. Audit further noted that Variation Order-1 (VO) of Rs 7.05 million has been approved in favour of M/s REC (Pvt.) Limited for Construction of Sultan Bahoo Bridge incorporating following changes:

- i. Additional consultant staff as per actual requirement for supervision.
- ii. Re-appropriation of man-months of consultant staff in accordance with time for completion of main bridge and approach roads contracts.

Audit observed that payment of Rs 7.05 million through VO.1 was not justified because the Employer was agreed for payment of remuneration to the staff of the Consultants as per requirement provided in Appendix B1 at a cost of Rs 32.37 million for the contract period. Payment of Rs 7.05 million on account of VO.1 resulted in an overpayment of Rs 7.05 million.

Audit holds that unjustified increase of cost through variation was occurred due to non-adherence to the contractual provisions and inadequate oversight mechanism for exercising the internal and financial controls.

Audit pointed out the overpayment in September 2015. The Authority did not reply.

The matter was discussed in DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January, 2016 wherein NHA explained that deployment of additional staff was imperative and unavoidable. The consultant agreement is not Lump Sum agreement and only defined deployed staff strength is payable per member per month. It is not Consultant's contractual obligation to deploy additional staff not included in agreement but extremely essential and imperative for effective supervision as per site requirement and demand. Keeping in view the indispensable and unavoidable necessity to meet site requirement to ensure proper supervision of all works of three packages, the consultant request for additional staff was given due consideration recommended and approved by NHA authorities concerned after physical and factual verification of site situation. Accordingly, Variation/Addendum No.1 was initiated and duly approved by NHA Competent Authority. DAC directed NHA to get the records in support of reply verified from Audit within seven days.

The compliance of DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends early compliance of DAC's directives.

(DP.86)

#### **4.4.80 Unjustified/undue/inadmissible provision of machinery hours/ labour caused extra expenditure - Rs 6.72 million**

Para 56 of Chapter-2 of NHA Code provides that technical sanction means the order of the competent authority sanctioning a properly detailed estimate of the cost of a work of construction or repair proposed to be carried out by the Authority. Sanction accorded to the execution of a work by an officer of any other department is regarded merely as an administrative approval of the work. Technical Sanction is a guarantee that the proposal is structurally sound and that the estimates are accurately calculated and based on adequate data. It shall be issued on the basis of detailed estimates for the project as a whole, after administrative approval is accorded. As per standard parameter of the CSR/specification when the unit of measurement is taken in numbers then it is treated that cost of each

No. contained the component of providing, fixing including all incidental expenses complete in all respect.

Audit noted that General Manager Hassan Abdal-Havellian Expressway (E-35) awarded three (03) contracts for fixing of ROW markers alongside of the boundary of acquired land for E-35 project for demarcation of possession of land in order to ensure accurate acquisition of required strip of land. There was an item fixing of ROW marker provided by taking unit of measurement in numbers @ Rs 6,285.93 each. In the estimate/BOQ technically sanctioned by the authority. As per afore quoted provision the said item was sufficient and contained all components of providing, fixing including all incidental expenses complete in all respect.

Audit observed during review of the paid vouchers that additional components of machinery, tractor hours, dozer hours and labour for Rs 11,170 were added over the unit of measurement in Nos. of fixing of ROW marker and paid separately. Further 13% premium was also allowed over the estimated cost.

Audit holds that inclusion of additional items which were inbuilt cost of the ROW markers with the unit of measurement in Nos., therefore, it was not admissible for payment and no justification of rate of analysis for inclusion of additional components made available to audit.

Non-adherence to rules/procedure caused unjustified/undue/inadmissible payment for Rs 6.72 million.

Audit pointed out unjustified payment in March 2015. The Authority replied that rate for each marker is Rs 6,250.93 containing all components of providing, fixing & providing all incidental expenses complete in all respect. However No. of tractor hours, man power & dozer hours were provided in the contract for (a) Making a jeepable track along both sides of E-35 in order to make it more prominent from the surroundings & to protect it from land grabbers (b) to dismantle the structures coming inside of ROW.



The reply was not tenable because analysis of rate of item providing and fixing of ROW marker contained the CSR items of excavation, concrete and steel enforcement which contained the component of access to site and dismantling of structures. It is further added that work executed by the machinery was required to be measured as well as dismantled structure was to be accounted for but both requirements were not fulfilled.

The matter was discussed in DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January, 2016 wherein DAC directed NHA to get the relevant records i.e. analysis of rates, MBs and contract provisions verified from Audit within seven days.

The compliance of DAC's directives was not made till the finalization of this Audit Report.

Audit recommends early compliance of DAC's directive.

(DP.110)

**4.4.81 Non-forfeiture of bank guarantee for Rs 6.01 million and non-encashment of performance bond of the defaulting contractor - Rs 2.00 million**

Clause 8.3 of Article-VIII of the contract provides that as security for monthly toll revenue deposit, the OMC shall furnish to NHA within a period of fourteen (14) days after the receipt of letter of acceptance, a cash security in the shape of pay order or demand draft or in the shape of bank guarantee in an amount equivalent to net guaranteed revenue offered by the OMC for one month in the name of RMA, NHA against any loss resulting from OMC's failure to fulfill the requirements of providing precise and prompt revenue deposits.

Audit noted that contract of Islamabad-Muzaffarabad Dual Carriageway/Murree Toll Plaza was awarded to M/s Speed Inc. for Toll Collection for the period 1<sup>st</sup> July, 2013 to 30<sup>th</sup> June, 2014 for one year at

net guaranteed bid value of Rs 72.16 million per annum with monthly toll revenue of Rs 6.01 million. M/s Speed Inc. furnished bank guarantee for an amount of Rs 6.01 million from Allied Bank.

Audit further noted that the contract of IMDC toll Plaza with M/s Speed Inc. was terminated in May 2014 by NHA due to default on account of non-remittance of advance monthly guaranteed revenue of Rs 6.01 million from month of August 2013 to onward. It is further added that M/s Speed Inc. submitted a performance bond amounting to Rs 2.00 million on account of performance Security. Non-adherence to contract caused non forfeiture of bank guarantee for Rs 6.01 million and non-encashment of performance bond Rs 2.00 million.

Audit holds that at the time of termination of contract the bank guarantee was required to be forfeited and performance bond was also required to be encashed but no action was taken by NHA.

Audit pointed out non forfeiture of bank guarantee and non-encashment of performance bond in March 2015. The Authority did not reply.

The matter could not be discussed in DAC meeting despite best efforts by Audit.

Audit recommends for early forfeiture of bank guarantee and encashment of performance bond besides appropriate action against the persons responsible.

(DP. 254)

#### **4.4.82 Overpayment due to measurement of cold milling quantity beyond site requirement - Rs 5.93 million**

Item No.309.1 of NHA General Specifications, 1998 (contract specification) stipulates that cold milling work shall consist of milling (cutting) of concrete or asphaltic layer to a designated level and width by means of specialized equipment, removal of cut material and disposal as

per special provision or as directed by the Engineer. Further, Item No.309.3.1 provides that the quantity of cold milling to be paid shall be measured by the number of square meters of area milled and cleaned as described above as per drawings or as directed by the Engineer. No allowance will be given for milling outside the approved limit. Any such area milled beyond approved limits shall be reinstated by the contractor at his own expense.

Audit observed that General Manager (Punjab-North), NHA Lahore measured and paid cold milling with 01 to 04 centimeter excessive thickness as compared to thickness of the asphaltic base course and asphaltic wearing course. This resulted in an overpayment of Rs 5.93 million.

Audit holds that the overpayment was made due to non-adherence to the provision of contract specification/legitimate requirement of site and ineffective oversight mechanism for implementing technical, financial and internal controls.

Audit pointed out the overpayment in November 2015. The Authority replied that the work was done as per site requirement and paid accordingly.

The reply was not tenable because in order to achieve specific depth of cold milling for execution of asphaltic base course and asphaltic wearing course, the cold milling items i.e. 309a (0-30mm), 309b (0-50mm), 309b prorata based (0-130mm) and 309c were to be executed/adjusted accordingly. And if any item of cold milling was not available as per BOQ then it should have been introduced through Variation Order in order to avoid the overpayment.

The matter was discussed in DAC meeting held on 15<sup>th</sup> January 2016, wherein the Committee directed to hold a fact finding inquiry at MoC level within one month.

The compliance of the DAC's directives was not conveyed till finalization of this Audit Report.

Audit recommends early recovery of the amount involved.

(DP. 433)

**4.4.83 Unauthentic payment of Rs 5.37 million and overpayment due to incorrect calculation of escalation - Rs 2.80 million**

Para 6.2(a) of contract agreement for consultancy of Motorway (M-4-Extension) from Khanewal to Multan (57 KM) awarded to M/s NESPAK provides that remuneration paid in local currency pursuant to the rates set forth in Appendix –D shall be adjusted every 12 months (and for the first time, with effect for the remuneration earned in the 13<sup>th</sup> calendar month after the date of the contract) by applying prescribed formula.

Audit noted that an escalation payment for Rs 5.37 million including 6% Income Tax of Rs 303,801 was allowed to the contractor on 7<sup>th</sup> of November, 2014 vide Sub Ledger Voucher No. 051007.

Audit further noted that escalation with reference to above said clause was payable only on the sub-head (1), remuneration whereas no escalation was payable on the other sub-heads-2 (reimbursable expenses) and on sub-head-3 (Out of Pocket Expenses). The Authority allowed escalation on sub head-3 that resulted in an overpayment of Rs 2.80 million.

Audit holds that the overpayment occurred due to non-adherence to the rules, regulations, existence of opportunity for violation of law and material weakness in internal controls.

Audit pointed out the overpayment in August 2015. The Authority did not reply.

The matter was discussed in DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January, 2016 wherein NHA explained that P & CA Section NHA HQ was asked for decision about the matter. DAC directed NHA get the relevant record verified from Audit.

The compliance of DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends early compliance of DAC's directives.

(DP.132)

#### **4.4.84 Overpayment due to allowing premium on value of non-BOQ items - Rs 5.27 million**

As per clause 12.3 of the agreement, a new rate or price shall be appropriate for an item of work if no rate or price specified for the item.

Audit noted that Project Management for the project "widening and improvement of Qila Saifullah Zhob Section" determined and paid rate of Rs 6,727/cu.m for item No.401b (Bill No.4D) and Rs 9,876/Cu.m for item No.509d (Bill No.4D). Thereafter, premium @ 11.47257% on value of work done Rs 8,722.49 million against the said items was also allowed. Audit holds that rates of these non-BOQ items were based on current prices and quoted premium was not admissible. This resulted in an overpayment of Rs 5.27 million.

Audit holds that overpayment occurred due to lack of oversight mechanism for implementation of internal controls.

Audit pointed out the overpayment in August 2015. The Authority replied that that Concrete Class B was added as per site requirement and rate was analyzed in Bid Evaluation Report and got approved in VO-02 by competent authority. Subsequent to the above, premium was added very accurately after due process and justification.

The reply was not tenable as non-BOQ items were analyzed on market rate inclusive of permissible overhead and profit 25% and

subsequently 11.47% premium was also allowed thereon. As item rate contained the permissible overhead & profit, therefore, addition of premium was not admissible.

The matter was discussed in the DAC meeting held on 11<sup>th</sup> -12<sup>th</sup> January 2016, wherein Audit informed that non-BOQ items were analyzed on market rate inclusive of permissible overhead and profit 25% and subsequently 11.47% premium was also allowed thereon as item rate contained the permissible overhead & profit, therefore, addition of premium was not admissible. Authority explained that new item was added as per site requirement and premium was allowed as per bid evaluation. The Committee directed that matter be investigated with reference to addition of profit and overhead twice on the market rates.

The compliance of DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends early recovery of the overpaid amount

(DP. 140)

#### **4.4.85 Overpayment due to non-adjustment of rate - Rs 4.57 million**

NHA Specification 209 Class-C Stones ranging in weight from a minimum sixty (60) kg to a maximum of one hundred (100) kg, with at least 50 percent by weight of the stones weighing more than eighty (80) kg.

Audit noted that the Project under FERP "Construction of Bridge over Vadoor Nullah at Km 96-97 (N-70), was awarded to M/s Techno Time Construction Co. Audit observed that average rate of Rip Rap class-C was 65% less than 100 kg when tested and consultant issued defect notice to the contractor in September 2014.

Audit holds that rate was required to be reduced up to 65% i.e. from Rs 1,650 to Rs 1,072.5 per Cu.m (1650 x 65%). Non-reduction of rate resulted into an overpayment of Rs 4.57 million.

Audit holds that overpayment due to non-adjustment of rate was due weak technical and financial controls governing contract management.

Audit pointed out the overpayment in September 2015. The Authority replied that contractor has completed 100% work on site pertaining to Item No. 509 (C) (Rip Rap Class-C) i.e. 12,175 cubic meter costing Rs 20.09 million whereas, till to-date only 65% payment i.e. for 7,913.738 cubic meter has been released provisionally.

The reply was not tenable that as per specification, stone was to be used having 100 kg weight for riprap class-C, whereas stone used was of lesser weight/strength, therefore, entire work is termed below specification.

The matter was discussed in the DAC meeting held on 2<sup>nd</sup> February, 2016. Audit informed the Committee that stone having lesser thickness was used in riprap. NHA explained that payment was made to the contractor for reduced quantity. The Committee showed displeasure for execution of below specification work and directed Member (North Zone) Khyber Pakhtunkhwa to hold an inquiry for execution of below specification work besides disciplinary action against the responsible.

The compliance of DAC's directive was not made till the finalization of this Audit Report.

Audit recommends early compliance of DAC's directive.

(DP. 244)

#### **4.4.86 Non-recovery of mobilization advance - Rs 4.25 million**

Clause 60.12(a & b) of the Contract Agreement stipulates that an interest free mobilization advance up to 15% of the contract price stated in the letter of acceptance shall be paid by the Employer to the contractor upon submission by the contractor of a mobilization advance guarantee for the full amount of the advance in the specified form a Scheduled Bank in Pakistan/Insurance Company approved by Employer. Recovery of

mobilization advance paid shall be started after 25% work done in 10% equal installments and balance mobilization advance shall be recovered in total from the last IPC before final bill.

Audit observed during examination of the accounts record of General Manager (Punjab-North), NHA Lahore that mobilization advance amounting to Rs 6.55 million was allowed to the contractor in July and August 2010 equal to 15% of the contract price stated in the letter of acceptance. However, recovery of mobilization advance worth Rs 2.30 million could be made up to March 2013 leaving balance of Rs 4.25 million. Reportedly, the contractor demobilized from site leaving incomplete work. Total payment of work done was Rs 26.85 million and progress of the work was considered to be 53.32% ( $\text{Rs } 26.85 \text{ million} \div \text{Rs } 50.36 \text{ million} \times 100$ ) up to March 2013. Since March 2013, the Management/Account Section made no efforts towards recovery of outstanding mobilization advance from the other works of the same contractor or through forfeiture/encashment of the bank guarantee/insurance bond received against the mobilization advance.

Audit holds that non-recovery of outstanding mobilization advance occurred due to non-pursuance of recovery by Project Management & Account Section and lack of financial and internal controls.

Audit pointed out non-recovery in November, 2015. The Authority replied that outstanding mobilization advance would be recovered from the contractor out of pending retention money and forthcoming IPCs as the contractor had resumed the construction activities at site.

The matter was discussed in DAC meeting held on 15<sup>th</sup> January 2016, wherein DAC showed displeasure for non-recovery of mobilization advance from the contractor in pursuance of the approved recovery schedule and the contractor defaulted. DAC directed NHA to recover the amount of mobilization advance and get the recovery verified from Audit within 15 days.



The compliance of the DAC's directives was not conveyed till finalization of this Audit Report.

Audit recommends early recovery of the amount involved.

(DP. 444)

**4.4.87 Unjustified provision/payment for lab equipment - Rs 3.00 million**

According to item 701.3.2 of NHA General Specifications, payment shall constitute full compensation for all costs of furnishing survey teams and necessary labour, materials, equipment and its maintenance and incidentals, for the proper completion of the work as directed by the Engineer in the Special Provision. If the survey instruments are provided against a normal BOQ item then these will remain the property of contractor at the end of the project. However if survey instruments are supplied against "Provisional Sum" item, then these will become client's property at the end of the projects.

Audit noted that NHA Management awarded the left over project of M-8 at cost of Rs 4,000.71 million including cost of general items for site facilities. Audit observed that a provisional sum of Rs 3.00 million was provided against item No.703 (Bill No.07-Material testing laboratory including fixture, equipment and furniture). Payment of Rs 1.35 million was made till date.

Audit holds that provision/payment against this item was unjustified because payment on account of establishing the laboratory was also made to the contractor who left the work incomplete. This indicates that lab equipment has not been handed to NHA by the contractor. This resulted in unjustified provision/payment of Rs 3.00 million.

Audit pointed out unjustified payment in October 2015. The Authority replied that provision of lab equipment has been made because the previous contractor took away the lab equipment while they shifted

their machinery and plant. Recovery of lab equipment taken away by the previous contractor shall be effected in the final bill.

Progress towards recovery was not reported.

The matter could not be discussed in the DAC meeting despite best efforts.

Audit recommends early recovery of the amount involved.

(DP. 315)

#### **4.4.88 Unjustified/overpayment for Road Diversion Work - Rs 2.60 million**

As per clause SP-28 and general conditions attached with the agreement, the contractor shall, in consultation with Resident Engineer provide proper diversion to traffic in collaboration with traffic authorities, any negligence on the part of contractor or any damages or losses caused due to this negligence shall be borne by the contractor.

Audit noted that the Project under FERP “Rehabilitation of N-5 Ranipur-Rohri (Ranipur-Tando Nazar) (North bond) Package-1, KM 412 to 440,” was awarded to Xinjiang Beixin Road & Bridge Group Co Ltd.

Audit observed that an amount of Rs 2.60 million was paid as non-BOQ item for running and repair of diversions. Audit is of the view that as per above condition of the agreement it was duty of the contractor to maintain diversions without any cost. This resulted in an overpayment of Rs 2.60 million.

Audit pointed out the overpayment in September 2015. The Authority replied that the Ranipur Urban Area which faced chronic traffic congestion problem resulting of long queues in kilometers for many hours due to the pathetic condition of road and water overflowing from the side drains. Earlier the task for Rehabilitation of Ranipur Urban Area was assigned in NHIP Moro-Ranipur Project but was deleted at later stage due

to the encroachments, utilities and traffic congestion. The same task for Rehabilitation/ widening upto 15 meters on either sides was assigned to M/s. Xinjiang Beixin Road & Bridges Co. Ltd. Accordingly the Encroachment and Utilities were removed from the construction limits of the project. However many meetings were also conducted with Local Administrations, NH&MP, Local Police, Ranipur Sugar Mill Administration and other stakeholders for smooth flow of traffic. It is worth to mention here that there was no any alternate route for diversion of the traffic. Therefore, it was decided for continuous maintenance of one track as a diversion to avoid any untoward situation during execution of work on the other carriageway, which was approved by NHA-HQ and the work was executed day and night and completed full Rigid Pavement in 1.7 KM on either sides of carriageway successfully without major hindrances to the traffic. In this regard we saved the Vehicle Operating Cost (VOC), time, lives of the people and timely completion which has indirectly much more impact than the cost of Rs 2.60 million.

The reply was not tenable because as per agreement it was the duty of the contractor to provide diversion for traffic.

The matter was discussed in DAC meeting held on 2<sup>nd</sup> February, 2016. Audit informed that separate payment of diversion was made through extra item whereas it was included in the item rate. NHA explained that due to traffic congestion problem in the urban area of Ranipur this diversion was made for 1.7 Km. Audit reiterated that as per special provision proper diversion to traffic was responsibility of the contractor, therefore, payment on this account was not admissible. The matter could not be concluded despite detailed deliberation and Committee pended the Para.

Audit recommends early recovery.

(DP. 223)

#### **4.4.89 Loss due to payment of interest on delayed payment - Rs 2.45 million**

According to General Condition of Contract 60.10 read with Conditions of Contract-II (Conditions of Particular Applications), “The amount due to the contractor under any Interim Payment Certificate(IPC) issued by the Engineer be paid by the Employer to the contractor within 42 days after such IPC was delivered to the Engineer or in case of Final Payment Certificate (FPC) with 90 days after such FPC was delivered to the Employer. In the event of the failure of the Employer to make payment with the specified times, the Employer shall pay to the contractor interest @ 8 % upon all sums unpaid from the date by which the same should have been paid. Likewise, if an overpayment was noticed to have been made to the contractor either the same shall be adjusted in his invoice or repaid by the contractor to the Employer with simple interest estimated @ 8 % per annum for the period the overpayment was retained by the contractor”.

Audit noted that the Project of FERP, NHA “NCB-S-15, Rehabilitation of Panu Aqil to Dherki Road (N-2) Package-B, KM 517+400 to 552+000, FERP Loan 2742 Pak, was awarded to M/s FWO for Rs 1,292.00 million. A payment of Rs 2.45 million was made to the contractor on as first claim on account of interest on delay payments of IPC No.1 of Rs 251.07 million.

Audit observed that the management neither returned IPC to the contractor nor processed for the payment in the specified period. This slackness on the part of the management put the government in to a loss of Rs 2.45 million in shape of payment of interest on delayed payments.

Audit holds that ineffective implementation of internal controls and violation of the rules resulted in a loss to Authority.

Audit took up the matter with the management in September 2015. The Authority replied that IPC-I amounting to Rs 251.07 million duly certified by CRE, M/s SMEC on 17<sup>th</sup> June, 2014 was processed within

specified time. However, the payment was made to the contractor on 21<sup>st</sup> August, 2014. Therefore, in accordance with Clause 14.7 & 14.8 of GCC, the contractor was entitled for interest claim on delayed payment. Hence, the Engineer/CRE, M/s SMEC certified & recommended the said interest claim on delay payment to the contractor amounting to Rs 2.45 million against IPC-01 on 25<sup>th</sup> May, 2015, which has accordingly been processed.

The reply was not tenable because delayed payment charges were paid but responsibility for this delay was not fixed. Moreover, these kinds of penalties were not eligible payments to be charged to this loan.

The matter was discussed in the DAC meeting held on 2<sup>nd</sup> February, 2016. Audit informed that despite fund availability contractor payments were not made within timelines which caused payment of interest on delayed payment. The Project Director concerned explained that the IPCs remained pending with ADB. Audit contended that interest was then chargeable to ADB rather than NHA. The Committee directed to investigate the matter of delayed payment.

The compliance of DAC's directive was not made till finalization of this Audit Report.

Audit emphasizes early compliance of DAC's directive.

(DP. 227)

#### **4.4.90 Overpayment to contractor due to valuation of item at higher rate - Rs 2.42 million**

The work "Construction of Peshawar Northern Bypass Package – I" M-I interchange to Charsada Road (Km 0+000 to Km 7+600) was awarded to M/s Matracon Pakistan Joint Venture M/s Xinjiang Bexin on 18<sup>th</sup> December, 2009 with date of commencement on 10<sup>th</sup> February, 2010. At that time NHA CSR 2009 was prevalent. Rate of item-608h2 pavement making in reflective Thermoplastic (TP) paint for lines of 15 cm width was Rs 100.53 per linear meter.

Audit observed that the Project Director, Peshawar Northern Bypass (Package-I) substituted the item Chlorinated Rubber (CR) Paint with TP Paint on the basis of NHA CSR 2014 at Rs 170.49 per linear meter. This resulted in an overpayment of Rs 2.42 million.

Audit pointed out the overpayment in September, 2015. The Authority replied that for computation of new rate for Non BOQ item of TP paint rates given in both CSR 2009 and 2014 were evaluated and considered only that rate which was found more favorable to the employer, was adopted.

The reply was not tenable because the contractor M/s NIC was assignee of Matracon for Package-I. Package-III-A was also being executed by NIC from 2013, where the contractor had quoted Rs 60 for CR paint. Hence, for the valuation of the varied work of TP Paint, the rate of Package-III could have been made basis for the valuation.

The matter was discussed in DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January, 2016 wherein DAC directed NHA that rate as per Schedule of Rates 2009 be taken for non-BOQ items instead Schedule of Rates 2014 and get it verified from Audit within 15 days.

The compliance of DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends early compliance of DAC's directives.

(DP.34)

#### **4.4.91 Overpayment due to unjustified payment of ramps - Rs 2.09 million**

According to Preamble to the Bill of Quantities, a rate or price shall be entered against each item in the BOQ, whether quantities are stated or not. The cost of items against which a bidder has failed to enter a rate or price shall be deemed to be covered by other rates and prices entered in the BOQ. As per Specification No. 108.1, formation of embankment shall

consist, including preparation of area for placing and compaction of embankment material in layers and in holes, pits and other depressions within the roadway area in accordance with the Specifications and in conformity with the lines, grades, thickness and typical cross-section shown on the plans or established by the Engineer. The work shall also include the compaction, trimming and shaping of the side slopes as shown on the plans and removal of any excess fill as directed by the Engineer prior to placement of top soil on slopes of the embankment where required.

Audit noted that the work “Package-VI: Construction of Sultan Bahoo Bridge Over River Chenab (Construction of J-Spur and raising of existing Dyke on Shorkot side at Sultan Bahoo Bridge)” was awarded to M/s Choudhry Construction Company at agreement cost of Rs 296.00 million on 10<sup>th</sup> April, 2013. The work was commenced on 27<sup>th</sup> June, 2013 to be completed upto 22<sup>nd</sup> March, 2014 which was extended upto 30<sup>th</sup> March, 2015. The contractor has been paid for Rs 219.29 million against work done upto 7<sup>th</sup> IPC.

Audit observed that a quantity of 6,856.882 Cum on account of construction of Ramps was measured upto 7<sup>th</sup> IPC vide page 73 to 83 of MB and was added to and paid under Item 108c: Formation of embankment at the rate of Rs 305 per cubic meter. Audit further observed that the construction of Ramps was the responsibility of the Contractor and was not to be measured and paid as it was ancillary work of the Formation of Embankment. This unjustified measurement resulted in an overpayment of Rs 2.09 million (6,856.882 x 305).

Audit holds that the overpayment resulted due to non-adherence to the Preamble to BOQ and provisions of the agreement.

Audit pointed out the overpayment in September, 2015. The Authority did not reply.

The matter was discussed in DAC meeting held on 11<sup>th</sup>-12<sup>th</sup> January, 2016 wherein NHA explained that construction of ramps

involving earth fill beyond toe/construction limits of J-Spur & flood dyke is an additional work, which was not responsibility of the contractor to execute the same as ancillary work of embankment without any additional cost and payment. However, item of work being same, the quantity executed was included and paid under BOQ item 108c after getting necessary approval from Member concerned. Audit contended that construction of ramp beyond the provision of contract agreement was not to be paid separately to the contractor which needs recovery. DAC pended the para.

Audit recommends early recovery of the amount involved.

(DP.83)

## **Others**

### **4.4.92 Expected loss due to award of construction work on BOT basis without conducting preliminary study/commercial study/toll revenue assessment by NHA/third party - Rs 119.93 billion**

Rule 23 of GFR stipulates that every Government officer should realize fully and clearly that he would be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Para 1(a) regarding toll levels of the said Public Private Partnership (PPP) policy and regulatory framework provides that the tolls charged for use of the national highways, motorways, tunnels and bridge will be one of the key evaluation factors used to decide which bidder is awarded the Concession. It should be noted that toll revenues estimated by NHA in its Pre-feasibility study will take into account a number of factors including cost recovery, levels of tolls on other toll roads, affordability, types of traffic and other factors relevant to the specific project.



Audit observed that the two projects regarding conversion of existing 4-lane superhighway into 6-lane motorway and construction of railway overhead bridge at Habibabad Bridge (N-5) were awarded to M/s Superhighway Construction Operation and Rehabilitation Engineering (Pvt) Ltd. and M/s Habibabad Operation & Management Engineering Company (Pvt) Ltd. (subsidiaries of M/s FWO) on BOT basis vide concession agreements dated 10<sup>th</sup> March 2015 and 23<sup>rd</sup> April 2014 respectively.

Audit further observed that feasibility study, commercial study, estimation of revenue receipt and third party evaluation of revenue receipt was not carried out against these projects whereas before proceeding ahead for procurement, it was necessary to complete these formalities in order to ascertain the reasonability of NHA toll share during the concession period. Due to non-completion of pre-requisite formalities by NHA as well as through third party the works were awarded at lesser NHA revenue share during concession period leading to approximate loss of Rs 119.93 billion in shape of less receipt of toll revenue during the concession period, worked by compounding the actual toll receipt against M-9 motorway and Railway Overhead Bridge at Habibabad (N-5) for the years 2014-15 and 2013-14 respectively with 22% annual increase (including 5 % annual traffic increase, 10% annual toll rates increase and 7% profit increase).

Audit holds that mis-procurement of the contract and agreement with M/s SCORE & M/s MORE on lesser toll revenue share occurred due to non-adherence to the PPRA rules/PPP policy and framework and lack of financial/internal controls.

Audit pointed out irregularity in December, 2015. The Authority did not reply.

The matter could not be discussed in the DAC meeting despite best efforts.

(DP. 452)

## **CHAPTER 5**

### **PAKISTAN PUBLIC WORKS DEPARTMENT AND ESTATE OFFICE (MINISTRY OF HOUSING AND WORKS)**

#### **5.1 Introduction**

##### **(A) Pakistan Public Works Department**

Pakistan Public Works Department (Pak. PWD) is an attached department of the Ministry of Housing and Works. The department is responsible for construction and maintenance works (Buildings and Roads) of the Federal Government. It is headed by a Director General. The Director General is assisted by a Chief Administrative Officer who deals with administrative matters. There are four Chief Engineers for North, South, West and Central Zones in the country. They are assisted by Superintending Engineers and Executive Engineers/Assistant Executive Engineers. The matters relating to planning are looked after by the Chief Engineer (Planning). The accounts of the Pak. PWD are departmentalized. The budget and accounts matters are dealt with by the Director, Budget and Accounts. Appropriation Account and Finance Accounts are prepared annually by Director, Budget and Accounts. Divisional office is the basic accounting unit of the department and is headed by the Executive Engineer. All payments relating to work done and supplies are made in the divisional office.

Detailed estimates are prepared at the sub-divisional level and technically sanctioned by the Executive Engineers, Superintending Engineers or the Chief Engineers according to their competency. Pre-audit is carried out by the Divisional Accounts Officers on behalf of the Director, Budget and Accounts who is responsible for maintaining the accounts of the department. Divisional Accounts Officers are also co-signatory of the cheques with the Executive Engineers.

## 5.2 Comments on Budget and Accounts (Variance Analysis)

Three Federal Grants 49-Civil Works, 51-Federal Lodges and 141-Capital Outlay on Civil Works relate to Pak. PWD. The table below shows the position of budget allocation and actual expenditure for the financial year 2014-15 in respect of Pak. PWD:

**(Rs in million)**

Type of Funds/Grants	Final Grant	Actual Expenditure	Excess/ (Saving)	Excess/ (Saving) in %
<b>Non-Development</b>				
49-Civil Works	3,291.50	3,243.83	(47.67)	(1.45)
51-Federal Lodges	82.49	76.57	(5.92)	(7.18)
<b>Sub-Total</b>	<b>3,373.99</b>	<b>3,320.40</b>	<b>(53.59)</b>	<b>(1.59)</b>
<b>Development</b>				
141-Capital Outlay on Civil Works	4,746.34	3,206.80	(1,539.54)	(32.44)
<b>Grand Total</b>	<b>8,120.33</b>	<b>6,527.20</b>	<b>(1,593.13)</b>	<b>(19.62)</b>

The total budget allocation for the year 2014-15 in non-development and development grants was Rs 8,120.33 million against which an expenditure of Rs 6,527.20 million was incurred. There was a saving of Rs 1,593.13 million representing 19.62% of total budget allocation. The main reason for saving was less utilization of development grant.

Audit observed that Supplementary Grant of Rs 874.69 million and surrender of Rs 221.367 million were made after cut-off date in violation of rule 95 of General Financial Rules (Vol-I) and para 2 (ii) and (iii) of Finance Division (Expenditure Wing) letter No.F-5(3) exp-III/2009 dated 10<sup>th</sup> April, 2010 as under:

(Rs in million)

Grant	Original Grant	Supplementary Grant		Surrender	Amount withheld (Not Released)	Final Grant
		Before cut off date	After cut off date			
(1)	(2)	(3)	(4)	(5)	(6)	(7) (2+3+4-5-6)
49-Civil Works	3,138.28	113.26	52.56	10.10	2.50	3,291.50
51-Federal Lodge	72.39	0.003	10.10	-	0.003	82.49
<b>Sub-Total</b>	<b>3,210.67</b>	<b>113.26</b>	<b>62.66</b>	<b>10.10</b>	<b>2.50</b>	<b>3,373.99</b>
141-Capital Outlay	2,214.34	2,229.92	812.03	211.27	298.68	4,746.34
<b>Grant Total</b>	<b>5,425.01</b>	<b>2,343.18</b>	<b>874.69</b>	<b>221.37</b>	<b>301.18</b>	<b>8,120.33</b>

- Original allocation under Grant No. 49-Civil Works for the financial year 2014-15 was Rs 3,138.28 million. The department received a supplementary grant of Rs 165.82 million which was 5.28% of the original grant. The department surrendered an amount of Rs 10.10 million whereas an amount of Rs 2.50 million was withheld by Finance Division. The final grant came to Rs 3,291.50 million against which an expenditure of Rs 3,243.83 million was incurred. There was a saving of Rs 47.67 million which was 1.45% of the final grant.
- In Grant No. 51-Federal Lodges, original allocation for the financial year 2014-15 was Rs 72.39 million. There was a token supplementary grant of Rs 3,000 (Rs 0.003 million) followed by a supplementary grant of Rs 10.10 million after cut-off date. A sum of Rs 3,000 (Rs 0.003 million) was not released by Finance Division. The final grant came to Rs 82.49 million against which an expenditure was Rs 76.57 million was incurred. There was a saving of Rs 5.92 million representing 7.18% of the final grant.
- Under Grant No. 141-Capital outlay on civil works, original allocation was Rs 2,214.34 million during financial year 2014-15. Supplementary Grants of Rs 3,041.95 million were received. An amount of Rs 298.68 million was withheld/not released. An

amount of Rs 211.67 million was surrendered. The final grant/appropriation came to Rs 4,746.34 million against which an expenditure of Rs 3,206.80 million was incurred which constituted the 67.56% of the final grant. There was a saving of Rs 1,539.54 million that was 32.44% of the final grant.

Above variance analysis showed that department utilized development grant lesser than the available budget resulting in delay in transfer of inherent benefits to the public.

In addition to above regular budgetary grants, Pak. PWD also utilized funds under Peoples Works Programme-II (PWP-II) and Deposit Works during the financial year 2014-15 as under:

(Rs in million)

Type of Fund	Amount Available on 01.07.2014	Amount Surrendered	Expenditure during 2014-15	Closing Balance (30.06.2015)
PWP-II	1,824.83	63.34	716.91	1,044.58

(Rs in million)

Type of Fund	Opening Balance on 01.07.2014	Deposits received during 2014-15	Expenditure during 2014-15	Closing Balance on 30.06.2015
Deposit Works	4,937.55	3,069.19	3,313.45	4,693.29

### Receipts

(Rs in million)

Head of Account	Estimated Receipts	Actual Receipts	Shortfall	%age shortfall
Recovery adjusted in reduction of expenditure	260.00	195.66	54.34	24.75

As per original estimates for 2014-15, miscellaneous receipts were estimated for Rs 260.00 million against which Rs 195.66 million was

collected by Director Budget and Accounts (DBA), Pak. PWD, representing 75.25% of the budgeted receipt. Above state of affairs indicated that targets of receipts collection were not achieved.

### **(B) Estate Office**

Estate Offices situated at Islamabad, Lahore, Karachi, Quetta and Peshawar are under the administrative control of the Ministry of Housing and Works. These offices deal with allotment of government-owned accommodations, properties, recovery of rent, etc. from the allottees/occupants. The Estate Office management includes an Estate Officer assisted by Joint Estate Officers at the four provincial offices. Grant No. 50 relates to Estate Offices.

Budget allocation and expenditure of Estate Offices for the year 2014-15 is tabulated below:

**(Rs in million)**

<b>Original Grant</b>	<b>Final Grant</b>	<b>Expenditure</b>	<b>Excess/ (Saving)</b>	<b>%</b>
122.54	122.88	117.37	5.51	(4.48)

Final grant was Rs 122.88 million, against which an expenditure of Rs 117.37 million was incurred resulting into saving of Rs 5.51 million which is 4.48% of final grant.

### **Receipts**

**(Rs in million)**

<b>Description</b>	<b>Estimated Receipt</b>	<b>Actual Receipt</b>	<b>Excess/ (Shortfall)</b>	<b>%</b>
C 02701 – Works Building Rent	443.60	397.65	(45.95)	(10.36)

The buildings rent recovery of Rs 443.60 million was estimated in the budget 2014-15 against which an amount of Rs 397.65 million was

collected by the Estate Offices, which was 10.36% lesser than the budgeted receipt.

### 5.3 Brief comments on the status of compliance with PAC's directives

Compliance position of PAC's directives on Audit Reports relating to Pakistan Public Works Department/Estate Offices as under:

Year	Total Paras	No. of Paras Discussed	Compliance Made	Compliance Awaited	Percentage of Compliance
1985-86	06	06	01	05	16.67
1986-87	02	02	01	01	50.0
1987-88	09	09	01	08	11.11
	1 SAR	1 SAR	-	1 SAR	-
1988-89	1 PAR	1 PAR	01	-	100
1989-90	37	37	15	22	40.54
1990-91	17	17	15	2	88.24
	1 PAR	1 PAR	-	1 PAR	-
1991-92	63	63	15	48	23.81
	1 PAR	1 PAR	-	1 PAR	-
1992-93	50	50	45	05	88.23
	1 PAR	1 PAR	-	1 PAR	-
1993-94	64	64	31	33	48.44
1994-95	24	24	15	09	62.5
1995-96	24	24	15	09	62.5
1996-97	69	69	47	22	68.12
1997-98	176	176	128	48	72.72
	1 SAR	35	33	02	94.29
1998-99	175	175	90	85	51.43
1999-2000	106	106	69	37	65.09
2000-01	60	60	48	12	80.00
2001-02	32	32	28	04	87.5
2002-03	9	9	3	6	33.33
2003-04	21	21	9	12	42.86
2004-05	18	18	07	11	38.89

<b>Year</b>	<b>Total Paras</b>	<b>No. of Paras Discussed</b>	<b>Compliance Made</b>	<b>Compliance Awaited</b>	<b>Percentage of Compliance</b>
2005-06	38	38	19	19	50.00
2006-07	45	45	13	32	28.88
2007-08	27	27	8	19	29.63
2008-09	29	29	19	10	65.51
2009-10	09	09	04	05	44.44

Note: Audit Reports for 2010-11, 2011-12, 2012-13, 2013-14 and 2014-15 have not been discussed by PAC till the finalization of this Audit Report. SAR stands for Special Audit Report and PAR for Performance Audit Report.



## **5.4 AUDIT PARAS**

### **Irregularity and Non-Compliance**

#### **5.4.1 Non-receiving back funds amounting to Rs 2,300.91 million from M/s NLC along with accrued interest about Rs 641.07 million**

In pursuance of approval of the Prime Minister, conveyed vide letter No.4218/M/PSPM/2012 dated 2<sup>nd</sup> October, 2012, for assigning execution of Mandra-Chakwal and Sohawa-Chakwal Roads to M/s NLC as deposit work, funds amounting to Rs 1,100.00 million and Rs 1,200.91 million were transferred to M/s NLC on 15<sup>th</sup> October, 2012 and 30<sup>th</sup> January, 2013, respectively. While deciding Writ Petition No. 3387, 3724/2012 and 582/2013 on 28<sup>th</sup> March, 2013, the High Court Islamabad cancelled the assignment of works to M/s NLC as deposit works and ordered M/s NLC for returning all amounts received on account of execution of projects to the Pak. PWD within one week of receipt of the Order.

Audit observed that Executive Engineer, Central Civil Division-V (CCD-V) Pak. PWD, Islamabad did not receive back the funds from M/s NLC on the plea that the contractor filed intra court appeal in the Islamabad High Court against the said decision in April 2013, whereas latest status of the intra court appeal with reference to its acceptance as well as further order was not forthcoming from the record. Moreover, the Employer also remained unable to adjust the work done of IPC-I & II amounting to Rs 612.61 million. This resulted into non-receiving of principal amount of Rs 2,300.91 million and interest accrued thereon amounting to Rs 641.07 million worked out on the basis of 10% interest rate per annum.

Audit holds that non-receipt back of Rs 2,300.91 million from M/s NLC was due to non-pursuance of intra court appeal and inadequate implementation of financial and internal controls.

The matter was taken up with the department in September 2015. The department replied that the case regarding receiving back funds amounting to Rs 2,300.92 million from M/s NLC was subjudice in the Islamabad High Court as Intra Court Appeal lodged by M/s NLC. Moreover, the matter had been taken up with M/s NLC regarding return of subject funds along with interest thereon, as per court decision and Audit would be intimated latest position on the matter.

The matter was discussed in DAC meeting held on 21<sup>st</sup> January, 2016 wherein the Committee directed department to pursue the court actively and provide updates regarding the case.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 94)

#### **5.4.2 Payment without recording detailed measurements in Measurement Books - Rs 1,464.57 million**

Para 208 of Central Public Works Account Code provides that payments for all work done and for all supplies are made on the basis of measurements recorded in Measurement Book (MB) form 23, in accordance with the Rule in Para 209. The MB should, therefore, be considered very important account record. As all payments for work or supplies are based on the quantities recorded in the MB, it is incumbent upon the person taking the measurements to record the quantities clearly and accurately.

Audit noted that Pakistan Public Works Department made payments of Rs 1,464.57 million without recording detailed measurements of each item of work done in the MBs. (**Annexure-I**)

Audit holds that veracity/authenticity of payment could not be verified due to non-recording of detailed measurements. The Pak PWD adopted an irregular method of work measurement/record keeping by dispensing with an approved and established method of record keeping. The authorities adopted an unreliable system of computer based proforma in place of forms approved by the Office of the Auditor General of Pakistan and Finance Division. Recording only abstract in the MBs is also a compromise on mandatory oversight and internal controls. This resulted in unauthentic payment of Rs 1,464.57 million.

Audit pointed out the matter in October, 2015. The department replied that no measurement books were used for recording detailed measurements but payment was made on the basis of detailed measurement sheet certified by the Consultants.

The reply was not tenable. Payments of work done without proper record entry in the MBs were unauthentic and against the codal provisions.

The matter was discussed in DAC meeting held on 21<sup>st</sup> January, 2016 wherein the department explained that Consultants are performing as ‘The Engineer’ of the projects who have supervised the works and certified all Interim Payment Certificates (IPCs). All details have been provided in the certified bill and abstracts were recorded in the MBs. The DAC was not convinced and directed the department to prepare MBs and provide to Audit for verification.

The compliance to the DAC’s directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC’s directives at the earliest.

(DP. 08,116,146)

### 5.4.3 Unauthorized withholding of amounts - Rs 138.92 million

The Finance Division (Budget Wing), Government of Pakistan vide letter No. F-3(20) BR/II/94-B-Vol-I/313 dated 15<sup>th</sup> April, 1997 allowed the operation of four (4) Personal Ledger Accounts (PLA) in Pak. PWD with zero balances operative from 1<sup>st</sup> July, 1997:

PLA No.	Description	Nature
PLA-I	Annual Development Programme	Lapsable
PLA-II	Maintenance only	Lapsable
PLA-III	Deposit Works	Non-lapsable
PLA-IV	Other Deposits such as Contractor's Securities, GP Fund receipts, etc.	Non-lapsable

Audit noted that an amount of Rs 138.92 million pertaining to PLA-I were withheld and then transferred to PLA-IV (non-lapsable) during 2014-15 as detailed below:

S. No.	DP No.	Name of Division	Amount (Rs in million)
1	124	CCD Abbottabad	129.98
2	65	Central E/M-II, Peshawar	8.94
<b>Total</b>			<b>138.92</b>

Audit noted the withheld amounts were partly released from PLA-IV (non-lapsable account) in the next financial year 2015-16.

Audit observed the following irregularities in the transfer of funds:

- i. The rules do not permit withholding of any amounts after approval of claims and booking of expenditure. In case, reasons warrants non-payment to contractors, the claim should not be processed for payment.
- ii. The rules do not permit transfer of any funds from PLA-I to PLA-IV except contractors' securities, GP fund and other receipts.

- iii. In certain cases, expenditure was booked as work done but not measured and part payments were withheld without physical site inspection by the supervisory officers.

Audit, therefore, considers that budgeted funds were unauthorizedly transferred from PLA-I to PLA-IV to avoid lapse which is also vulnerable to misuse.

Audit pointed out the irregularity in August and October, 2015. The department admitted with holding of amount of Rs 138.92 million due to non-provision of performance, insurance guarantees, test check by the Engineer.

The reply was not found satisfactory because rules did not permit withholding of payments after booking of expenditure and then transfer of same funds from PLA-I to PLA-IV whereas, the PLA- IV is meant for only other deposits such as contractor's Securities, GP Funds receipts, etc.

The matter was discussed in DAC meeting held on 21<sup>st</sup> January, 2016 wherein the Committee directed department to take action against those who irregularly withheld the amounts and kept in PLA-IV and set right the balances as per rules.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit emphasizes implementation of DAC's directives at the earliest.

(DP.65, 124)

#### **5.4.4 Irregular expenditure on new schemes under Peoples Works Programme -II (PWP) - Rs 95.38 million**

Para (3) of Supreme Court of Pakistan Order dated 22<sup>nd</sup> July, 2013, provides that as far as left over scheme is concerned, it should be examined as to whether the same is in the public interest and if feasible,

continue the said scheme. If such schemes are found not to be in the public interest or feasible, the same shall be abandoned subject to the approval of the Competent Authority on whose behalf the Schemes were initiated and the funds so available shall be deposited with the public exchequer.

Audit noted Executive Engineer, CCD-IV Islamabad awarded thirteen (13) new PWP-II schemes and made payments of Rs 95.38 million during April-June, 2015 from the available funds from the previous suspended / incomplete schemes of the PWP-II for the year 2012-13.

Audit observed that the new schemes were executed in violation of the Honorable Supreme Court of Pakistan's Orders as no funds for the specific new schemes were available with the division.

Audit holds that the expenditure of Rs 95.38 million was irregular due to non-compliance of the Supreme Court Orders.

Audit pointed out the irregular expenditure in October, 2015. The department replied that all thirteen (13) schemes were approved, technically sanctioned and tenders were invited against available savings of other schemes.

The reply was not tenable. New schemes were introduced in violation of Orders of Supreme Court of Pakistan and without clarification of availability of funds.

The matter was discussed in DAC meeting held on 21<sup>st</sup> January, 2016 wherein the department informed that schemes had been got approved, technically sanctioned and tenders were invited against available savings of the schemes. The DAC directed the department to provide administrative approval of the works to Audit for verification within seven (07) days.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 25)

#### **5.4.5 Non-revalidation of performance guarantee – Rs 61.79 million and advance payment guarantee - Rs 46.54 million**

According to general conditions of contract agreements based on PEC bidding documents, the successful bidder shall furnish to the employer a Performance Security in the shape of a bank guarantee issued by a scheduled bank in Pakistan or an insurance company having at least AA rating from PACRA/JCR. The bank guarantee should be valid till successful completion of the work and maintenance period. Any advance made was required to be secured against valid bank/ insurance guarantee.

Audit noted that the various Executive Engineers of Pakistan Public Works Department awarded different works to different Contractors. Audit observed that the department did not obtain / re-validate Performance and Mobilization Advance Guarantees.

This resulted in compromise on risk coverage of advance payment and performance of the contractor of Rs 108.33 million (**Annexure-J**).

Audit holds that bank guarantees were not got re-validated / obtained due to non-adherence to the provision of agreement, weak financial and internal control mechanism.

Audit pointed out the irregularity in October 2015. The department replied that the matter of guarantees has already been taken up with the Contractors. The Bank guarantee as and when received from the contractors would be submitted to Audit.

The department admitted non-submission / non-revalidation of the bank guarantees.

The matter was discussed in DAC meeting held on 21<sup>st</sup> January, 2016 wherein the Committee directed the department to effect recovery of inbuilt cost of the guarantees for the period the guarantees remained invalid/not provided.

The compliance to the DAC's directive was not made till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 45, 61, 64 & 93)

#### **5.4.6 Non-recovery of Mobilization Advance Rs 50.58 million and acceptance of Insurance Guarantee from a low rating Insurance Company**

According to Clause-60.11 of agreement, an interest free Mobilization Advance @ 15 % of the contract price stated in the Letter of Acceptance was to be paid by the Employer to the contractor in two parts. The Advance was to be recovered in equal monthly installments; first installment at the expiry of third month after the date of payment of first part of Advance and the last installment two months before the date of completion of the Works.

Audited noted that the Executive Engineer, Central Civil Division, Pak PWD, Faisalabad awarded the work "Construction/ Rehabilitation of metalled road Danday Wala Pull Jhand Road to Dhangroo Pull along-with Canal Jhang Branch District, Faisalabad (NA-81)" to M/s Ch. Abdul Latif & Co at agreement cost of Rs 805.13 million on 25<sup>th</sup> June, 2010. The work was started on 25<sup>th</sup> June, 2010 and was to be completed upto 24<sup>th</sup> June, 2012.

Audit observed that the Contractor was paid Rs 117.00 million on account of Mobilization Advance out of which, Rs 50.58 million are still lying outstanding against the Contractor. Full recovery of Mobilization Advance was not made as per clause of the agreement i.e. upto April, 2012



due to non-execution of further work by the contractor. Audit further observed that Insurance bond issued by low rating Company was accepted against Mobilization Advance instead of Guarantee from the scheduled Bank against the government interest which has since expired. The matter of recovery from the Guarantor was neither taken up nor Guarantee was got extended. This resulted in irregular acceptance of Insurance Bond of a Company having rating less than 'AA', non-extension of validity of the Guarantee and non-recovery of Mobilization Advance of Rs 50.58 million.

Audit holds that Insurance Bond was accepted irregularly and the recovery was not made due to inadequate oversight mechanism for effective implementation of internal controls.

Audit pointed out the non-recovery and acceptance of Guarantee from a low rating company in October, 2014. The Authority did not reply.

The matter was discussed in DAC meeting held on 12<sup>th</sup>-13<sup>th</sup> January, 2015 wherein the department explained that mobilization advance was granted against the guarantee issued by the Jubilee Insurance Company having AA rating. As regards outstanding recovery of mobilization advance, the same would be effected in the 6<sup>th</sup> running bill of the Contractor. The DAC directed department to effect recovery from the Contractor from next IPC.

The compliance to the DAC's directive was not made till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 90/2014-15)

#### **5.4.7 Unauthorized retention of development funds in PLA-III (non-lapsable) to avoid lapse - Rs 39.65 million**

The Finance Division (Budget Wing), Government of Pakistan vide letter No. F-3(20) BR/II/94-B-Vol-I/313 dated 15<sup>th</sup> April, 1997

allowed the operation of four (4) Personal Ledger Accounts (PLA) in Pak. PWD with zero balances operative from 1<sup>st</sup> July, 1997:

<b>PLA No.</b>	<b>Description</b>	<b>Nature</b>
PLA-I	Annual Development Programme	Lapsable
PLA-II	Maintenance only	Lapsable
PLA-III	Deposit Works	Non-lapsable
PLA-IV	Other Deposits such as Contractor's Securities, GP Fund receipts, etc.	Non-lapsable

Audit noted that an amount of Rs 39.65 million pertaining to Peoples Works Programme (PWP-I&II) and Deposit Works was shown as balance in PLA-III (non-lapsable) on 30<sup>th</sup> June, 2015 as detailed below:

**(Amount in Rs)**

<b>S. No.</b>	<b>DP No.</b>	<b>Name of Division</b>	<b>PWP-II</b>	<b>Deposit Works</b>	<b>Total</b>
1	40	CCD-IV, Islamabad	926,288	15,266,837	16,193,125
2	66	Central Electrical & Mechanical Peshawar	-	23,460,173	23,460,173
	<b>Total</b>		<b>926,288</b>	<b>38,727,010</b>	<b>39,653,298</b>

Audit observed that this amount being development grant of the government was required to be placed in PLA-I (Lapsable) and unspent balances were to be surrendered to Finance Division before the cut-off date but the amount was transferred / kept in PLA-III (non-lapsable) to avoid lapse.

Audit holds that the irregularity occurred due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Audit pointed out the irregular retention of funds during October, 2015. The department replied that as per definition of the PLA-I, deposits

received through Director, Budget & Accounts, Pak PWD or which do not pertain to Pak PWD cannot be placed under PLA-I.

The reply was not correct. As per decision of the Ministry of Finance, development funds were to be placed in PLA-I.

The matter was discussed in DAC meeting held on 21<sup>st</sup> January, 2016 wherein the DAC directed department to provide approval of Secretary Finance for placing the funds in PLA-III to Audit for verification within seven (07) days.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.40 & 66)

#### **5.4.8 Undue payment of Construction Supervision Charges beyond the stipulated period - Rs 9.43 million**

Clause 6.1 "Lump Sum Remuneration" of Consulting Contract Agreement with M/s NESPAK provides for Consultant's Remuneration for Data Collection, Schematic Design, Engineering Design and Construction Supervision of services for the Project shall be as under:

- i) Data Collection, Schematic Design, 2.5% (two point five percent of the cost of works on completion)
- ii) Construction Supervision 2.5% (two point five percent on of the cost of works on completion applicable for stipulated construction period)
- iii) Payment for topographic survey, soil investigation shall be reimbursed by the Client as per actual to NESPAK

- iv) The Client shall bear all legal fee, challans or payment to any Government Agencies Departments in connection with the Project.

Audit noted that the Executive Engineer, Central Civil Division No. III Pak PWD, Islamabad allowed and paid construction supervision charges for the extended period beyond the stipulated period of completion. This resulted in undue payment of construction supervision charges for Rs 9.43 million.

Audit pointed out undue payment in October 2014. The department replied that the audit observation had been sent to NESPAK for immediate reply. No further reply from the department was received.

The matter was discussed in DAC meeting held on 12<sup>th</sup>-13<sup>th</sup> January, 2015 wherein the department replied that recovery would be made from the next running bill of the Contractor. The DAC directed department to effect recovery from the Contractor from next IPC and get it verified from Audit.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.123/2014-15)

#### **5.4.9 Award of works to ineligible Contractors - Rs 4.86 million**

Condition-11 and 12 of Standard form CPWA-06 regarding Notice Inviting Tenders provides that the contractor should produce a certificate of registration from the Sale Tax authority and attach it with tender failing which the tender will not be considered. Further, a certificate from the Income Tax Authorities of the District or the Circle to the effect that all the taxes have been paid and that the accounts of the tenderer are clear,

must accompany the tender, failing which his tender will not be considered.

Audit observed that Executive Engineer, E/M-III, Pak PWD, Islamabad awarded various works to M/s Abdul Wahab and M/s Ch. Brothers and made payments of Rs 2.70 million and Rs 2.16 million respectively.

Audit observed that as per Federal Board of Revenue, the contractor's status for income tax was inactive. This shows that the contractor was not filing Income Tax return regularly. Audit holds that the contractor has not submitted the Income Tax clearance certificate at the time of bidding. This resulted in irregular award of work to the ineligible contractor and payments thereof Rs 4.86 million.

Audit holds that the irregularity occurred due to non-adherence to the bidding obligations and inadequate mechanism of enforcing financial and internal controls.

Audit pointed out the irregularity in October, 2015. The department replied that the Contractors provided Income Tax Registration and other documents at the time of purchase of tender documents and Income Tax deducted from the payments to Contractors was deposited with FBR.

The reply was not correct. It was prerequisite for participation in the bidding to submit Income Tax Clearance Certificate from the Income Tax department which was not provided. The status of the firms with Income Tax department was inactive hence, the works were awarded to the ineligible contractors.

The matter was discussed in DAC meeting held on 21<sup>st</sup> January, 2016 wherein the department explained that the Contractor had provided Income Tax registration and other required documents at the time of purchase of tender documents. Audit apprised the Committee that the Department provided Income Tax Registration to Audit while the account

of the Contractor with Income Tax Department was inactive. The DAC directed the department to provide Income Tax Clearance Certificate for verification to Audit.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 15)

## **Performance**

### **5.4.10 Loss due to abnormal delay in completion of project and mismanagement on the part of the site supervisor - Rs 2.48 billion**

The scheme "Construction of Musa Khail Taunsa Road (35 KM)" was approved by the CDWP in its meeting held on 21<sup>st</sup> March, 2006 for Rs 505.50 million including consultancy charges of Rs 27.44 million.

Audit noted that the work was awarded originally to M/s NPI with an agreement cost Rs 456.85 million with completion period of 36 months at 72% above the schedule of rates of Pak PWD 2004 vide acceptance letter No.EE/CCD/VIIIW-272/133 dated 11<sup>th</sup> May, 2007. The contractor achieved 49% physical progress and abandoned the work unilaterally on 10<sup>th</sup> August, 2011. An amount of Rs 194.39 million was paid up to 14<sup>th</sup> running bill to the contractor. The administrative control of the work was transferred from Quetta to Muzaffargarh Division vide letter dated 10<sup>th</sup> February, 2012.

Audit observed that action was taken against the defaulting contractor under clause 3-c of the contract agreement vide letter No EE/CCD/DGK/AB/1142, dated 11<sup>th</sup> June, 2012 and the remaining work for road construction of Package-I for 15 kilometers was awarded to M/s Habib Construction Co. at an agreement cost of Rs 296.01 million at 310% above the schedule of rates Pak PWD 2004 with completion period

24 months. The work was still incomplete despite lapse of stipulated agreed period of two years.

Audit further observed that left over/unexecuted work, Package-II and III mainly comprised structure work which was not awarded due to non-revision of PC-I. Main reason for enhancement of project cost was defective estimation which was not based on proper site survey and calculation of hard rock quantities. Revised PC-I amounting to Rs 2,991.51 million prepared by the Divisional Officer was pending for approval with Planning Commission.

Audit holds that cost of the Project was abnormally enhanced from Rs 505.50 million to Rs 2,991.51 million which was 592% above the original PC-I cost. This resulted in a loss of Rs 2,486.01 million.

Audit pointed out the matter during November 2015. The department did not reply.

Audit recommends that the matter be investigated and responsibility fixed against persons responsible besides corrective measures for completion of work without further delay.

#### **5.4.11 Loss to Government due to delay in the completion of project - Rs 1.00 billion**

As per commitment of the DG Pak PWD and the Contractor, the balance works of HVAC and Lifts were to be completed upto 23<sup>rd</sup> March, 2015. As per Planning Commission M/O Planning Development & Reform (Projects Wing) letter No. 1 (2)/M (I & M)/PC/2014 dated 6<sup>th</sup> April, 2015, the important project of Pakistan Secretariat is dormant since 2011, due to bad intents of former Director General, Pak PWD. As per his erroneous perceptions / commitments to complete the project by 23<sup>rd</sup> March, 2015 was never possible due to pending jobs of HVAC & Lifts installation which needs minimum 6 months to complete.

Audit noted that the work “Construction of new Secretariat Block (TUV)” was awarded to M/s Interhom which is still incomplete.

Audit observed from the record produced during audit that the works could not be completed and financial losses incurred on the public money due to delay in completion of the project and paid as rent for official accommodation which comes to approximately Rs 1.00 billion so far in addition to the losses of wear & tear of the completed works.

Audit holds that loss occurred due to bad planning, lack of coordination among the stakeholders.

Audit pointed out the loss in October 2015. The department replied that a Committee was constituted by the Planning Division under Chairmanship of Member Monitoring & Implementation to complete critical pending HVAC and Lift issues of the building on 6<sup>th</sup> April, 2015 comprising of 07 members. A number of meetings were held in this regard and then the recommendations were issued on 30<sup>th</sup> June, 2015. The recommendations were further endorsed by the Secretary Housing on 13<sup>th</sup> July, 2015 for implementation. The Committee also roughly calculated the loss based on monthly rent being not received to the Government due to delay in completion of building. As far as financial aspect of HVAC equipment and installation of lifts is concerned, that will be calculated on completion of these works. The department admitted the Audit Observation.

The matter was discussed in DAC meeting held on 21<sup>st</sup> January, 2016 wherein the department informed the Committee that the matter is issue is with NAB and final decision is awaited. The DAC directed department to pursue the case with NA and provide updates to Audit.

The compliance to the DAC’s directive was not conveyed till the finalization of this Audit Report.



Audit recommends implementation of DAC's directives at the earliest.

(DP. 58)

### **Internal Control Weaknesses**

#### **5.4.12 Non-obtaining of insurance policies of Rs 1,086.57 and recovery of un-insured period - Rs 10.86 million**

Clause 21.1.25 of the agreement provides to insure the works together with materials and plant by the contractor. He was also required to get third party insurance (including Employer's property) against liabilities for death of or injuries to any person or loss or damages to the property arising out of the performance of the contract and provide such evidence to the Employer prior to start of work. The bid rates shall be deemed to have included all such obligations required under the clause and no separate payment shall be made to the Contractor for such insurance. In case of failure of the Contractor to keep enforced any of the insurances required, the Employer was to effect and keep enforced the insurances by paying premium and recovery from the payments due to the Contractor.

During audit it was found that Pak PWD neither obtained insurance policies for Rs 1,086.57 million nor recovery of insurance of Rs 10.86 million from the contractors was made. (**Annexure-K**)

The absence of insurance arrangements put the workmanship and equipment at risk and increased the vulnerability of Pak PWD to incur a huge liability in case of an incident.

The violation occurred owing to weak oversight mechanism for exercising the internal controls.

Audit pointed out the irregularity during audit of accounts for the year 2014-15. The department replied that matter has been taken up with the Contractor. Audit will be informed on receipt of the same.

The reply was not tenable. As per provisions of the Contracts, the Contractor were required to submit insurance policies before start of the works.

The matter was discussed in DAC meeting held on 21<sup>st</sup> January, 2016 wherein the department informed that all the Contractors had provided insurance coverage in shape of performance security and obtained Bank Guarantee at the time of making advance payments. The Committee did not accept the plea of the department of non-obtaining of insurance coverage and directed to effect recovery of un-insured period from the Contractors and get it verified from Audit.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 19, 59, 88,150)

#### **5.4.13 Irregular expenditure on work charged establishment - Rs 300.73 million**

According to standard formula given in each PC-I of Project, work charged staff for maintenance shall be allocated at 25 percent of the total maintenance expenditure. Para 2.03 (a) & (b) of Pak. PWD Code (revised), 1982 require that the work charged establishment shall include such establishment as was employed upon the actual execution, as distinct from the general supervision of a specific work. The work charged establishment shall not be engaged on any work unless provided for in the estimates as a separate sub-head for the estimate for that work.

During audit it was found that in three cases, the Executive Engineers of various divisions of Pak. PWD charged the salaries of the work charge employees to maintenance grant without observing ratio of 25% manpower of total maintenance cost of building as per standard

departmental practice. Audit further observed that the budget specified for repair & maintenance of government buildings was utilized on salaries of the work charged staff which remained idle due to non-availability of material. This resulted in irregular expenditure of Rs 300.73 million as detailed below:

<b>S. No.</b>	<b>DP. No.</b>	<b>Name of Formation</b>	<b>Amount (Rs in million)</b>
1	24	E&M-III, Islamabad	15.43
2.	55	CCD-VIII, Islamabad	118.80
3.	105	E&M-I, Karachi	66.88
4.	109	CCD-I, Karachi	44.25
5.	159	CCD-I, Lahore	55.37
<b>Total</b>			<b>300.73</b>

Audit holds that unjustified expenditure was due to inadequate oversight mechanism of enforcing relevant rules, weak financial/internal control and inadequate.

Audit pointed out the irregularity in October 2015. The department replied that Pak PWD is responsible for day to day maintenance of the different office and residential areas, so huge maintenance staff is required to up-keep the offices and colonies hence, no standard formula apply on work charged establishment.

The reply was not tenable because approved formula for PC-I was violated.

The matter was discussed in DAC meeting held on 21<sup>st</sup> January, 2016 wherein the DAC directed department to approach Finance Division for Ex-Post Facto approval, failing which disciplinary action be initiated against those who authorized payments in violation of rules.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

#### **5.4.14 Non-recovery from different contractors against work - Rs 76.44 million**

According Paragraph 177 (b) of Central Public Works Department Code, the recovery of all debts due to Government should receive the special attention of the Divisional Officer and no debt should be remitted or 'written off except under the orders of competent authority.

Audit noted that the Executive Engineer Central Civil Division-II Pak PWD Lahore identified recovery of overpayment of Rs 76.44 million from the different contractors against the works.

Audit observed that no serious efforts were made to recover the overpayments as identified by Divisional Officer. This resulted in non-recovery of Rs 76.44 million.

Audit holds that recovery was not effected due to weak internal and financial controls.

Audit the non-recovery in November 2015. The department replied that funds of the accounts have been lapsed by the Treasury Office. Case for re-validation of funds is in trial in the Supreme Court of Pakistan. The accounts shall be finalized as per agreement after decision of the Court and any recovery or payment shall be made accordingly.

The department admitted recovery.

The matter was discussed in DAC meeting held on 21<sup>st</sup> January, 2016, wherein the DAC directed to effect recovery and get it verified from Audit.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 161)

#### **5.4.15 Overpayment due to applying incorrect price adjustment formula - Rs 64.63 million**

As per Price Escalation Formula, given under clause 70.1 of Conditions of Contract Part-II, varied work based on market rates was not subject to price adjustment.

Para C-5 Part-1 of PEC procedure (Standard Procedure and Formula) for price adjustment of March 2009 explains that except labour and POL, if any other adjustable item(s) is / are not used in a particular billing period then the ratio of current date price and base date price for that particular adjustable item (s) shall be considered as one.

According to Part-I (Procedure), B: Parameters (Weightage of expected items) of Pakistan Engineering Council's Standard Procedure and Formula for price adjustment of March 2009, each of the cost elements, having cost impact of five (05) percent or higher can be selected for adjustment.

During audit scrutiny of accounts record of different divisions being executed by Pakistan Public Works Department, Audit noted that price escalation payments were made to the contractors.

Audit observed that overpayments in price escalation payments of Rs 64.63 million were made to the contractors due to the following:

1. Price escalation was allowed on the varied work priced on current market rates. This resulted in an overpayment of Rs 13.94 million.

(DP. 91/2015-16 & DP.119/2014-15)

2. Price adjustment was calculated with factor 1.574 instead of actual factor of 1.087. Application of incorrect price adjustment factor resulted in an overpayment of Rs 2.39 million.  
(DP.160)
3. Price escalation on the bricks having component less than 5% was allowed. This resulted in an overpayment of Rs 2.62 million.  
(DP.90)
4. Payment of escalation was made by applying higher current rates of Cement, Steel & High Speed Diesel. This resulted in an overpayment of Rs 1.07 million.  
(DP.73)
5. Weightage of steel provided in Appendix C was increased from 0.210 to 0.231. Resultantly, fixed portion was reduced from 0.463 to 0.442 through amendment in the contract. This resulted in an overpayment due to unauthorized change of weightages of Rs 1.39 million.  
(DP.114)
6. Price escalation was allowed on steel without utilization in the billing period. This resulted in an overpayment of Rs 33.68 million.  
(DP.75 & 218/2014-15)
7. Price escalation for labour was calculated by applying incorrect base rates. This resulted in an overpayment of escalation of Rs 8.00 million.  
(DP.68 & 70/2014-15)
8. Price escalation was calculated by applying higher weightage factors which resulted overpayment of Rs 1.54 million.  
(DP. 122/2014-15)

Audit pointed out the overpayments during September & October, 2014 and September to November, 2015. The department replied that the payments were made as per weightages and provisions of the contract documents duly verified by the Consultants. Final bills would be paid after thorough scrutiny and if any discrepancy found, it would be adjusted.

The reply was not tenable because overpayments were made due to violation of standard procedure and formula of price adjustments of Pakistan Engineering Council.

The matter was discussed in DAC meetings held on 12<sup>th</sup>-13<sup>th</sup> January, 2015 and 21<sup>st</sup> January, 2016. The Committee directed department to effect recovery and get it verified from Audit.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

#### **5.4.16 Acceptance of tender at higher rates - Rs 30.86 million**

According to Rule 10 (i) of GFR Vol (i), every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money.

Audit noted during scrutiny of agreement register that Chief Engineer (Central Zone) Pak PWD Lahore accepted tenders of eight (08) development schemes at 332% to 394.70% above the NIT cost based on Pak PWD Schedule of Rates, 2004 during 2012-13.

Audit observed that trend of acceptance of premium during the year 2012-13 was 140% to 235% above the N.I.T based on the Schedule.

Audit holds that extraordinary higher premium was accepted as compared to actually prevailing premium for the years. This resulted in acceptance of tenders at higher rates for Rs 30.86 million.

Audit pointed out the irregularity in May 2014. The department did not reply.

The matter was discussed in DAC meeting held on 12<sup>th</sup>-13<sup>th</sup> January, 2015 wherein the department apprised the Committee that detailed working is being made to find out the reasons for award of works at higher rates. The DAC directed department to conduct a Fact Finding Inquiry and furnish report within one month.

The compliance to the DAC's directive was not made till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 09/2014-15)

#### **5.4.17 Non-deposit of duties and taxes to government - Rs 29.49 million**

According to BOQ of the agreement, custom duty, sales tax and custom clearance charges (local) were included in the bid price on estimated basis.

Audit noted that Pakistan Public Works Department awarded the HVAC work of Federal Judicial Commission Building Islamabad to M/s Prime Engineering Methods JV Riaz and Sons at bid price of Rs 158.42 million on 10<sup>th</sup> May, 2013.

Audit observed that payment to Contractor was made including estimated custom duty and custom clearance charges based on equipment cost quoted by the Contractor but evidence of deposit of said taxes and duties by the Contractor to government was not available on record. In



absence of the same, deposit of the amount could not be ascertained. This resulted in non-deposit of custom duty and taxes with government of Rs 29.49 million.

Audit pointed out the irregularity in October 2015. The department did not reply.

The matter was discussed in DAC meeting held on 21<sup>st</sup> January, 2016 wherein the department explained that the work was awarded after evaluation of financial bid by the Consultant of the Project. The DAC directed the department to provide evidence of deposit of the duties and taxes with government by the Contractor within seven (07) days.

The compliance to the DAC's directive was not made till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 17)

#### **5.4.18 Payment of site facilities without documentary evidence - Rs 19.30 million**

According to Clause 58.3 of agreement, the Contractor shall produce to the Engineer all quotations, invoices, vouchers and accounts or receipts in connection with expenditure in respect of Provisional Sums (Bill No.7) except where work is valued in accordance with rates or prices set out in the Tender.

Audit noted that the Executive Engineer, CCD-V Pak.PWD Islamabad made payment of Rs 19.30 million against Special Provision (SP) items of Bill No.7 of the work "Dualization of Mandra-Chakwal Road".

Audit observed that the payment was made without obtaining required documents regarding provision of accommodations, lab and

survey equipment, vehicles and maintenance of the same etc. Due to which veracity of payment for facilities, services, furnishing items and equipment as per agreement could not be ascertained. This resulted in payment without determination of services provided to the employer of Rs 19.30 million.

Audit holds that the irregularity occurred due to non-adherence to the contractual provisions and ineffective financial and internal controls.

Audit pointed out undue payment in September, 2015. The department replied that the contractors M/s NLC was asked to provide the documents for clarifying the situation and would be produced to Audit as and when the same are received.

The department admitted that the payment was made without receiving supporting documents.

The matter was discussed in DAC meeting held on 21<sup>st</sup> January, 2016 wherein the department explained that M/s NLC had been asked to provide documents as pointed out by Audit. As and when the same are received, would be shared with Audit. The DAC directed the department that specification of Bill No. 7 be made part of agreement and payments be made accordingly after measurement in the MB.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 96)

#### **5.4.19 Unauthentic payment of escalation - Rs 16.56 million**

As per Standard Procedure and Formula for Price Adjustment of Pakistan Engineering Council (PEC) describes that user of this document is not to change any provision hereof unless otherwise stated. No method,

other than given in this document is acceptable to compute the price adjustments.

Audit observed that Executive Engineer, Central Civil Division-II Pak. PWD Lahore left blank the Appendix C to agreement. However, fixed portion of the estimated cost at the minimum of 35% and variable portion of specified items at the maximum of 65% without specifying weightage of the specified items in Appendix C and without observing the parameters as stated in the PEC formula and made payment of Rs 16.56 million on account of escalation. This resulted in unauthentic payment of escalation involving Rs 16.56 million.

Provision of maximum variation portion of 65 % with regard to the actual variation factors needs to be reviewed with reference to the admissibility of the price escalation as per PEC approved procedure and formula for penal action against the responsible (s).

Audit holds that unauthentic payment of escalation was made due to weak financial and internal control mechanism.

Audit pointed out the unauthentic payment of escalation in November 2015. The department did not reply.

The matter was discussed in the meeting of the DAC held on 21<sup>st</sup> January, 2016 wherein department explained that fix portion at 35% has been adopted as per Pakistan Engineering Council Formula and payment of escalation has been made as per contract. The Committee was not convinced and directed the Chief Engineer (Central Zone) to check weightage factors with reference to estimated cost and submit a report in this regard to Audit within 15 days.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 166)

#### **5.4.20 Overpayment due to unauthorized increase of rate - Rs 10.59 million**

As per clause 52.1, All variations referred to in Clause 51 and any additions to the Contract Price which are required to be determined in accordance with Clause 52 (for the purposes of this Clause referred to as "varied work"), shall be valued at the rates and prices set out in the Contract if, in the opinion of the Engineer, the same shall be applicable. If the Contract does not contain any rates or prices applicable to the varied work, the rates and prices in the Contract shall be used as the basis for valuation so far as may be reasonable. Further, as per preamble to the BOQ, the quoted rates of items included all lead and lift.

Audit noted that the Executive Engineer, CCD-VIII, Pak. PWD Islamabad measured and paid an extra item "making earthen embankment with earth taken from approved borrow pit..." lead upto 100 feet for a quantity of 7,990.757, 8,050, 10,165.81 cum @ Rs 629.74 per cum without approval of the competent authority against available rate of Rs 220 per cum in BOQ. It is worth mentioning that the item was paid at the rate of Rs 220 per cum upto 12<sup>th</sup> running bill. Thereafter, rate was increased to Rs 629.74 without approval. This resulted in an overpayment of Rs 10.59 million.

Audit pointed the overpayment in October 2014. The Department did not reply.

The matter was discussed in the meeting of the DAC held on 12<sup>th</sup>-13<sup>th</sup> January, 2015. The DAC nominated Joint Engineering Advisor (H&W) and Chief Engineer (Central Zone) to conduct fact finding inquiry into the matter alongwith physical inspection of the site and submit report within one month.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.121/2014-15)

#### **5.4.21 Discrepancy in balance of Other Deposits (PLA-III) – Rs 8.76 million**

According to CPWA Code, the balances shown in CAWA-65 (Schedule of Deposit Works) should correctly appear in PLA-III (Other Deposits) and Monthly Account (Form-80).

Audit noted during examination of the CPWA-65, Schedule of PW Deposit and Monthly Account (Form-80), that a balance of Rs 10,541,963 was shown in CPWA-65 (Schedule of Deposit Works) while balance of Rs 19,122,872 was shown in Schedule of PW Deposit-79 (Other Deposits-PLA-III) and Rs 19,311,077 in Form-80 (Monthly Account-PLA-III) for the month of June, 2015.

Audit observed discrepancy of Rs 8,769,114 (Rs 19,311,077 – 10,541,963) in the balances shown in Schedule of Deposit Works and balances shown in Monthly Account (PLA-III). This resulted in discrepancy of Rs 8.76 million.

Audit holds that the discrepancy in balances resulted due to inadequate oversight mechanism and ineffective implementation of internal controls.

Audit pointed out irregularity during October, 2015. The department did not reply.

The matter was discussed in DAC meeting held on 21<sup>st</sup> January, 2016 wherein the department apprised the Committee that difference is being reconciled and Audit will be informed accordingly. The Committee directed department to remove discrepancy and get it verified from Audit within seven (07) days.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.148)

#### **5.4.22 Non-deduction/less deduction of income tax - Rs 6.04 million**

According to Clarification issued by Commissioner of Income Tax, on 8<sup>th</sup> July, 2009 that no tax under section 153(I)(a) of the Income Tax Ordinance, 2001 has to be deducted in respect of goods which have already been subjected to withholding tax under section 148 of the said in terms of clause (47A) of the Part-IV of Second Schedule read with sub-section 5(I)(a) of Section 153 to the Income Tax Ordinance, 2001 by the withholding agent / purchaser on production of necessary documents provided goods are sold in the same condition when imported.

Audit noted that Pakistan Public Works Department Central Electrical & Mechanical Division-III, Pak PWD Islamabad made payment of Rs 54.01 million and Rs 33.79 million for the works "Construction of new Secretariat Block at Constitution Avenue Islamabad (SH:I Generating Set)" and "Construction of Federal Judicial Academy (Phase-II) Islamabad Sub Head Lifts Works" respectively.

Audit observed that Income Tax at the prescribed rates was not deducted from the bill of the work of new Secretariat block amounting to Rs 3.93 million. Similarly, income tax at prescribed rates was also not deducted from the payments of Lifts work amounting to Rs 2.10 million. Income Tax was not deducted on the basis of an exemption certificate of FBR dated 8<sup>th</sup> July, 2009 which provided that "no tax has to be deducted in respect of goods which have already been subject to withholding tax by the withholding agent / purchaser on production of necessary documents provided goods sold in the same condition when imported".

Audit further observed that the contract is not only for sale of lifts in the same condition as the same were imported but includes installation of the lifts for which the contractor offered bid after adding labour, other material and overheads. Hence, the Contract does not fall in the category of exemption of Income Tax granted to the Company but the management did not deduct Income Tax of Rs 2.10 million. In another case, less deduction of Income Tax of Rs 3.93 million due to application of lesser rate of deduction was made. This resulted in an overpayment to contractor due to non-deduction of income tax Rs 6.04 million.

Audit holds that Income Tax was not deducted due to non-adherence to the FBR instructions, weak internal and financial controls.

Audit pointed out the non-deduction in October, 2015. The department replied in one case that Income Tax on advance payment was not deducted and same will be deducted from the next running bill. In second case, the department replied that income tax was not deducted on the basis of tax exemption granted by the FBR. However, deduction would be made if any difference is found later on.

The department admitted contention of Audit.

The matter was discussed in DAC meeting held on 21<sup>st</sup> January, 2016 wherein the department informed that Income Tax was not deducted due to submission of exemption certificate by the firm. The DAC was not convinced and directed to effect full recovery from the contractor and verify the same from Audit within 07 days.

The compliance to the DAC's directive was not made till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.5)

#### **5.4.23 Overlapping of services resulted in excess expenditure - Rs 2.09 million**

As per Annexure-A of Consultant's agreement for the work "Construction of Islamabad High Court Building at G-5 Islamabad", the Consultant was responsible for submission of detailed design / drawing of electrical works, sub- station, transformer, generators, lift escalator etc.

Audit noted that the Executive Engineer, CCD-IV, Pak PWD Islamabad awarded a work "Construction of Islamabad High Court Building at G-5 Islamabad" to M/s Habib Rafiq (Pvt) Ltd at bid price of Rs 2,474.05 million.

Audit observed that BOQ item No. 12-d was included in the Electrical Sub Head of the contractor as "Making of Design Book of external electrification for getting approval of IESCO for connection and allied expenses of Rs 2.00 million. Whereas, as per referred condition of Consultant's agreement, it was the responsibility of the Consultant. Therefore, provision of same item in BOQ of Contractor resulted in overlapping/duplication of services and excess expenditure of Rs 2.09 million.

Audit holds that irregularity was due to weak internal/financial controls.

Audit pointed out the irregularity in October, 2015. The department did not reply.

The matter was discussed in DAC meeting held on 21<sup>st</sup> January, 2016 wherein the department apprised the Committee that the work is at an early stage and no expenditure has so far been incurred against the items. The DAC directed department to review the item before making payment and delete the item from BOQ of the Contractor being duplication.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.



Audit recommends implementation of DAC's directives at the earliest.

(DP. 34)

#### **5.4.24 Loss due to submission of fake Call Deposit by the lowest bidder - Rs 1.88 million**

As per para 10 (i) of General Financial Rules, every public servant is expected to 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.

Audit noted that Executive Engineer, CCD-IV Division, Pak PWD Islamabad invited tenders for the work "Rehabilitation of metalled link road Jurmat Kalan UC Jurmat Kalan, Tehsil Gujjar Khan (NA-51) with the NIT cost of Rs 9.42 million. In response, two bids were received, wherein, the 1<sup>st</sup> lowest quoted bid of 10% above the estimated cost i.e. Rs 10.36 million.

Audit observed that the said tender proceedings were scrapped by the departmental officer due to submission of fake Call Deposit by the lowest bidder. The work was retendered and awarded at 30% above the estimated cost i.e. Rs 12.24 million. Audit further observed that no action against the defaulting firm was taken by the department. This resulted in a loss to public exchequer of Rs 1.88 million.

Audit holds that loss occurred due to submission of fake documents by the bidder.

Audit pointed out the loss in October, 2015. The department replied that tenders were rejected due to submission of fake CDR by the Contractor. After rejection, tenders were recalled and rate was accepted within the permissible limit of TS estimate.

The department admitted the irregularity. The government sustained loss due to submission of fake CDR but no action was taken against the deceptive firm. The Contractor should have been tried in the court of law and matter be intimated to the Pakistan Engineering Council to get him debarred for future tendering in any government department.

The matter was discussed in DAC meeting held on 21<sup>st</sup> January, 2016 wherein the Committee directed department to take up the matter with the Pakistan Engineering Council and Court of law for penal action for submission of fake documents and black listing of the firm.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 29)

#### **5.4.25 Execution of work without releases of fund - Rs 1.39 million**

According to Executive Engineer, Central Civil Division-III Pak. PWD Islamabad letter No.C.III/W-410/1041 dated 25<sup>th</sup> June, 2015, the liability of Rs 1.39 million had not yet been paid to the contractor due to non-availability of funds.

Audit noted that Executive Engineer, Central Civil Division-III Pak. PWD Islamabad executed the work, "Improvement of Works for Federal Co-Operative Bank G-5 (External)" without releases of fund amounting to Rs 1.39 million and liability was not booked in the accounts records since 2012.

Audit holds that the execution of work without releases of fund and non-booking of liability in the department accounts since 2012 was due to inadequate mechanism for enforcing rules and exercising internal controls.

Audit pointed out the irregularity in September 2015. The department replied that the liability was created during the year 2011-12 to complete and made operational the internal / external water supply and sewerage system. The contractor has filed a case in Wafaqi Mohtasib at Islamabad.

The reply was not tenable because the work was executed without releases of funds and the liability was not booked in the accounts records upto 2015.

The matter was discussed in DAC meeting held on 21<sup>st</sup> January, 2016 wherein the department apprised the Committee that the matter is in Wafaqi Mohtasib. The DAC directed to take disciplinary action for execution of work without availability of funds. The Committee also directed to take up the matter with Finance Division for regularization.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 74)

#### **5.4.26 Overpayment due to higher rates of essential spare parts - Rs 1.04 million**

As per para 10(i) of General Financial Rules, every public servant is expected to 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.

Audit noted that Pakistan Public Works Department awarded the HVAC work of Federal Judicial Commission Building Islamabad to M/s Prime Engineering Methods/ Riaz and Sons (JV) at bid price of Rs 158.42 million on 10<sup>th</sup> May, 2013. Audit further noted that in two Sub Heads of Hostel Block and Faculty Suits, an item of work "Supply of essential spare

parts with proper packing and tagging” (as per appendix to BOQ) was provided @ Rs 960,000 and Rs 125,000 respectively.

Audit observed that as per appendix to BOQ, the total price of essential spare parts was Rs 28,000 and Rs 8,000 for Hostel Block and Faculty Suits respectively, whereas, the contractor quoted higher rates of Rs 960,000 and Rs 125,000. This resulted in an overpayment of Rs 1.04 million.

Audit holds that overpayment was due to weak internal/financial controls.

Audit pointed out the overpayment in October, 2015. The department replied that tenders were invited on item rate basis and all payments have been made on the basis of certified IPCs by Consultants. However, if any overpayment found, it will be adjusted from the next IPC of the Contractor after consultation with the Consultants.

The department admitted audit observation.

The matter was discussed in DAC meeting held on 21<sup>st</sup> January, 2016 wherein the Committee directed department to make adjustment of overpayment made to the Contractor through next IPC and get the same verified from Audit.

The compliance to the DAC’s directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC’s directives at the earliest.

(DP. 10)

#### **5.4.27 Encroachment of department’s land worth billions of rupees**

According to Para 45 of CPWD Code, the Divisional Officer is required to inspect, at least once a year, the more important buildings and

works in his division, and is responsible that proper measures are taken to preserve them and to prevent encroachment on Government lands in his charge. He should keep accurate plans of all such lands and take care that his subordinates make themselves acquainted with the boundaries and see that they are respected.

Audit noted that the Executive Engineer, Central Civil Division No.II, Pak PWD Lahore issued 249 legal notices through lawyers to land grabbers, illegal occupants of Pak. PWD land particularly at Wafaqi Colony Dhanna Singh Wala, Lahore.

Audit observed that the Divisional Officer did not make serious efforts to resolve disputes of land. Audit further observed that Superintending Engineer, Project Civil Circle Pak PWD Lahore also identified land grabbers / illegal occupants at the Pak PWD land worth billions of rupees was under possession of hundreds of encroachers.

Audit holds that encroachment of Government land was due to mis-management and weak monitoring system in the department.

The matter was taken up with the department in November 2015. The department replied that the matter is in the court of law and would be dealt with as per court decision.

The matter was discussed in DAC meeting held on 21<sup>st</sup> January, 2016 wherein the department informed that matter is sub-judice in different courts of law. The Committee directed department to improve monitoring system. The Committee also directed to pursue the court cases actively.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 168)

## **ESTATE OFFICE**

### **AUDIT PARAS**

#### **Irregularity and Non-Compliance**

##### **5.4.28 Non-maintenance of General Waiting List (GWL) and placement on website site**

The Supreme Court of Pakistan, in Constitutional Petition (CP) No.1498/2011 dated 19<sup>th</sup> October, 2011, directed the Administrative Ministry/Estate Office that in future all the allotment will be made strictly on the basis of GWL and relaxation of Rules under Rule 29-A of the AAR, 2002 will not often be exercised, except in the case of hardships and that too by recording justifiable reasons, after hearing the likely affected employees on the GWL. The above direction of apex court was not implemented and the Honorable Supreme Court again directed on 7<sup>th</sup> March, 2013 in a Civil Review Petition (CRP) No. 174 of 2012 that violation of above direction/observation passed by the court, which generates litigation between the parties, as a result whereof the civil servants, who otherwise, cannot afford litigation, have to suffer. Under circumstances, the Apex Court again directed the department to review all the allotments, which was made after passing the previous judgment and ensure its implementation in letter and spirit, and if any allotment was made in violation of the directions earlier made in the above judgment, must be re-considered and dealt with in connection with the observations noted hereinabove immediately.

Deputy Secretary (Estate), Ministry of Housing & Works vide its letter No. F.2(1)/86-Policy dated 15<sup>th</sup> April, 2013 directed the Estate Officer and Additional Estate Officers that in order to ensure transparency and allotments on merit as per rules, Estate Office is directed to observe the steps/procedure in allotment of government owned residential accommodation:

- Estate Office may place General Waiting Lists on the Web Site which shall be updated periodically.
- Estate Office may furnish periodically a hard copy of category-wise General Waiting Lists to the dealing Sections of this Ministry.

Audit observed during the scrutiny of accounts record of Additional Estate Office, Karachi and Lahore that category-wise updated general waiting lists are not being maintained on loose computer sheet, easily changeable and modifiable and no permanent general waiting register is being maintained in the office as per the direction of the higher office.

Audit further observed that general waiting list was also not maintaining on the website [[www.estate-office.gov.pk](http://www.estate-office.gov.pk)] to ensure the transparency and compliance of the orders of Minister/Ministry of House & works regarding computerization of record of Estate Office. Non-adherence to the orders of Supreme Court of Pakistan and Federal Government creates doubts on allotments of the quarters & houses.

Audit holds that General Waiting Lists are not being properly prepared and updated due to poor monitoring and internal control system in the departments.

Audit pointed out non-maintenance of seniority list in November, 2015. The department did not reply.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the department informed that GWL was updated from time to time but due to provision of GWL, books to NAB, Lahore, these are not available in office and will be shown to Audit as and when received. The DAC directed Estate Officer to provide the latest GWL (Hard copy) duly authenticated by Additional Estate Officer Lahore, to Audit for verification within 07 days.

The compliance to the DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.21 & 32)

#### **5.4.29 Unauthorized allocation of Government accommodations**

As per clause 7(1) of AAR-2002, the allotment of government owned accommodation shall be made to the most senior Federal Govt. Servant on General Waiting List (GWL) of a particular class or category of accommodation.

Audit noted that the Additional Estate Officer Lahore, allotted 55 accommodations to employees of different departments in Wafaqi, CGE and Pak. PWD Colonies during 2013-14 and 2014-15.

During test check of allotment files, Audit observed that five (05) accommodations were allotted to government servants by violating their seniority in General Waiting List and without issuance of offer letters to senior most applicants which shows favoritism in allotment process. Violation of quoted rules resulted in un-authorized allocation of accommodations.

Audit holds that allotments in disregard to the GWL resulted due to poor internal controls in the department.

Audit pointed out the irregularity in July, 2015. The department did not reply.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the department informed that offer letter to Federal Government servant have been issued from General Waiting List (GWL) and issued allotment letters to those, who submitted their responses in time. The DAC directed Estate Officer to provide the latest GWL (Hard



copy) duly authenticated by Additional Estate Officer Lahore alongwith application forms of the allottees to verify date of appointment and date of application within 07 days.

The compliance to the DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.22)

#### **5.4.30 Allotment of 11 houses to the government servants over and above the prescribed category of accommodation**

According to Rule 5 (2) & 7(1) of Accommodation Allocation Rules, 2002 provides that the allotment of A to I class of accommodation shall be made in accordance with the pay scale of the Government Servants as per their entitlement and the allotment of Government owned accommodation shall be made to the most Senior FGS on General Waiting List of a particular class or category of accommodation.

Audit noted that Estate Office Islamabad allotted 11 residences to the Federal Government Servants over and above of the scale and entitlement on their own request. The scale of Government accommodation according to category of each employee, specification, built up area, entitlement was fixed by the Government and provided in the AAR, 2002 but 11 officers/officials were succeeded to get the allotments one category above the entitlement. The officers of BPS-17&18 are enjoying the facility of accommodation prescribed for Secretary/ Additional Secretary BPS-19 &20 and officials of BPS.14 are enjoying the facility of accommodation prescribed for officers of BPS 17, on payment of maximum 5% normal rent of allotted accommodation without any provision in the Allocation Rules instead of payment of ceiling rent of allotted accommodation of that category.

Audit observed that entitled officers are compelled to reside in lower category or live in the private hired houses and ultimately Government has to pay the ceiling rent to the owner of private houses against their deprived entitled employees. This resulted in allotment of 11 houses to the government servants over and above the prescribed category of accommodation.

Audit holds that allotment of houses was made due to non-adherence to the Allocation, Accommodation Rules and weak internal controls.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the department informed that the departments having their own pool are responsible for recovery of rent as the affairs of allotment is in their purview. As regards houses comes under jurisdiction of the Estate Office, the same were allotted in light of rules enacted at time of allotment. The DAC directed Estate Officer to effect the recovery of 5% house rent charges at maximum pay scale of category of quarter from the occupants of over and above category of houses, and get it verified.

The compliance to the DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.7)

### **Internal Control Weaknesses**

#### **5.4.31 Non-vacation of Government accommodations and non-recovery of rental ceiling - Rs 76.94 million**

According to Rule 15(2) of Accommodation Allocation Rules (AAR) 2002, an allottee on his retirement or expiry of contract period shall be entitled to retain the accommodation under his occupation for a

period not exceeding six months, on payment of normal rent and this facility will be available to FGS once only.

Rule 16 (1&2) of AAR-2002 provides that the accommodation shall not be sublet by the allotter. If an allotter is found guilty of subletting his accommodation, the allotment shall be cancelled from the date of taking over possession of the house and he shall be charged monthly rent at the rate of one rental ceiling of his entitlement for the entire period.

According to Rule 25(1) of AAR, 2002 the Estate Officer shall carry out ejectments of unauthorized occupants from the government owned or hired accommodation under Federal Government Land and Building (Recovery of Possession) Ordinance 1965 (LIV of 1965). Rule 25(2) the ejectment of trespasser from the government or hired accommodation shall be carried out by the Estate Office concerned, immediately without serving any notice on the trespasser and first information report shall be lodged against the trespasser by the Estate Office. Rule 25(3) in order to expedite the eviction under sub-rule (1), the Estate Officer shall arrange the disconnection of service like water supply, gas, electricity and telephone of the house under illegal occupation.

As per Rule 25 (4) (a), in case of un-authorized retention beyond legally allotted period, rent equivalent to one rent ceiling of category of his entitlement or the category of the house under occupation, whichever is more, shall be charged for each month for the entire period of unauthorized occupation.

Rule 25(4) (b) *ibid* provides that in case of trespassing or unauthorized occupation, rent equivalent to two rental ceiling of the category of his entitlement or the category of the house occupied shall be charged for each month for entire period of unauthorized occupation.

**5.4.31.1** Audit observed that Additional Estate Officer Karachi did not recover the ceiling rent of Rs 22.24 million and outstanding dues on account of electricity and gas charges of Rs 0.98 million. This resulted in non-recovery of Rs 23.22 million.

Audit pointed out non-recovery in November, 2015. The department did not reply.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the department informed that some occupants have started depositing rent equal to rental ceiling alongwith arrears in installments. As regards vacations of occupants (retired), the matter is under consideration in Standing Committees of National Assembly and Senate Secretariat. The DAC directed Estate Officer to get the recovered amount verified and make efforts for recovery of balance amount.

(DP.35)

**5.4.31.2** Audit observed that Estate Officer Islamabad allotted government accommodations to various employees of non-entitled Departments i.e. NADRA, National Housing Authority (NHA) and NAB but did not recover rent from the allottees of these houses. This resulted in non-recovery of rent amounting to Rs 17.80 million.

Audit holds that non-recovery resulted due to inadequate monitoring system and weak internal controls.

Audit pointed out the non-recovery in September 2015. The department did not reply.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the department informed that notices of recovery have been served to the defaulters. The DAC directed to pursue the recovery and get it verified from Audit within seven (07) days.

(DP.5)

**5.4.31.3** Audit observed that Additional Estate Officer, Estate Office, Karachi got vacated various houses but did not recover ceiling rent of Rs 13.15 million from the previous allottees. This resulted in non-recovery of Rs 13.15 million.

Audit pointed out non-recovery in November 2015. The department did not reply.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the department informed that it has already taken up the matter with quarters concerned for recovery of rent and utility charges. The DAC directed Estate Office to effect recovery and get verified from Audit.

(DP.36)

**5.4.31.4** Audit noted in forty (40) cases, houses of different categories were occupied unauthorizedly. The Estate Office Islamabad failed to get vacated these houses from the unauthorized occupants.

Audit observed that entitled persons are depriving from getting the accommodation in Islamabad Capital territory who are waiting since long in the general waiting list. This resulted in non-recovery of ceiling rent of Rs 10.73 million.

Audit pointed out the non-recovery in September, 2015. The department did not reply.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the department replied that action for vacation of unauthorized occupants from the houses have been initiated and notices for recovery of rent have been served. The DAC directed to take action for vacation of accommodation and recover the rent as per rules.

(DP. 4)

**5.4.31.5** Audit noted in twenty four (24) cases that the allottees of different category of houses were retired from government services and their allotments were cancelled under rule 15 (2) of Accommodation Allocation Rules, 2002. Audit further noted that ex-allottees either still occupied the houses unauthorizedly or vacated the houses beyond the legally allotted period.

Audit observed that Estate Office Islamabad could not get vacated said houses from unauthorized occupants and did not recover the ceiling rent as per rule. This resulted in non-vacation of Government accommodations and non-recovery of rental ceiling amounting to Rs 5.79 million.

Audit pointed out the non-recovery in September 2015. The department did not reply.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the department explained that action for vacation of unauthorized occupants / retired allottees from the houses have been initiated and notices for recovery of rent have been served. The DAC directed to take action for vacation of accommodation and recover the rent as per rules.

(DP. 1)

**5.4.31.6** Audit observed that seven (07) residential accommodations of various classes/categories at Islamabad were trespassed since long as the accommodation were not handed over properly on retirement by the ex-allottees. The Estate Officer neither ejected the trespassers nor the rent as per rule was charged. This resulted in non-recovery of rent of Rs 2.87 million.

Audit pointed out the non-recovery in September, 2015. The department did not reply.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the department informed that notices for ejectment to unauthorized occupants have been served but houses could not be vacated due to non-provision of police squad. The Committee directed to make efforts for vacation of accommodations from un-authorized occupants besides recovery of rent as per rules.

(DP.3)

**5.4.31.7** Audit noted that Estate Officer allotted the Quarter No.95-D, Street No.21, Sector G-6/2, Islamabad to Syed Margoob Ali, Ex-Senior

Auditor O/o the Chief Accounts Officer, Ministry of Foreign Affairs who died on 28<sup>th</sup> February, 1991.

Audit observed that the family of ex-allottee neither vacated the house nor paid the ceiling rent of Rs 1.92 million. Later on, the said house was got vacated by force on 31<sup>st</sup> December, 2010 but rent was not recovered. This resulted in non-recovery of rental ceiling of Rs 1.92 million.

Audit pointed out the non-recovery in September 2015. The department did not reply.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the department informed that action for recovery against the defaulter is being initiated under Land and Revenue Act. The DAC directed Estate Officer to actively pursue the matter of recovery.

(DP.9)

**5.4.31.8** Audit observed that Estate Officer did not recover rental ceiling from the occupants who retained government accommodations beyond specified period after retirement, resignation, transfer and death cases. This resulted into non-recovery of ceiling rent of Rs 0.91 million.

Audit pointed out the irregularity in July 2015. The department did not reply.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the department informed that out of 05 quarters two occupants had filed a case in the Court due to which actions could not be taken against them. Whereas, one allottee has deposited rent and action against the remaining two defaulters is being taken. The DAC directed Estate Officer to effect recovery besides active pursuance of the court cases.

(DP.23)

**5.4.31.9** Audit observed that Estate Office Quetta allotted Quarter No.9-C CGS Colony Quetta to Mr. Muhammad Jamil, Assistant, Drugs

Regulatory Authority Quetta. Audit further observed that quarter was occupied by the allottee w.e.f 30<sup>th</sup> May, 2012 whereas, the allottee of said quarter was also provided hired accommodation by his department. Thus allottee was possessing two accommodations at a time in violation of the rules. This resulted in occupation of two accommodations and non-recovery of penal rent of Rs 0.55 million.

Audit pointed out non-recovery of rent for unauthorized retention of Government accommodation in October 2015. The department did not reply.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the department informed that the matter of recovery was taken up with the Department of the defaulter which intimated that an internal Inquiry is underway. The DAC directed the Estate Officer to pursue the matter with the allottee's department for recovery of penal rent.

(DP.18)

**5.4.31.10** Audit observed that Estate Officer, Peshawar neither got vacated the House No. C-137 & C-88 of Hassan Ghari Colony, from unauthorized occupants / trespassers nor rent equivalent to two rental ceilings of the category of his entitlement or the house occupied whichever was more, was recovered.

Audit pointed out the unauthorized occupation/non-recovery in September 2015. The department replied that this office has already got vacated the houses and recovery notices have been issued.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the Estate Officer explained that efforts are underway for recovery of rent. The DAC directed the department get verified the vacation of the houses and effect recovery immediately.

(DP.13)

The compliance to the DAC's directives was not conveyed till the finalization of this Audit Report.



Audit recommends implementation of DAC's directives at the earliest.

**5.4.32 Non-recovery of rent of Government accommodation - Rs 50.90 million**

As per Ministry of Housing and Works letter No.F-6(5)/2006-EVI dated 21<sup>st</sup> October, 2006 the Prime Minister approved the summary for transfer of 169 quarters of F.G. Colony, Sariab Road, Quetta to Government of Baluchistan on payment of Rs 202.00 million. First installment (25%) was to be paid before handing over the quarters whereas remaining payment was to be paid in three equal installments on yearly basis. According to Para 02(ii) of the agreement deed prepared by the Estate Office, Quetta interest @ 0.7% per month will be recovered from the Services and General Administration Department (S&GAD), Government of Balochistan, in case of failure to pay the installment.”

Audit observed that Estate Office, Quetta did not finalize agreement with S&GAD, Government of Balochistan despite the fact that all vacant quarters are occupied by them since 2010. This resulted in non-recovery on account of interest @ 0.7% per month, for Rs 50.90 million for the period 2012-13 to 2014-15 (Rs 202.00 million x 0.7% x 36 months).

Audit holds that the agreement was not finalized due to inadequate internal controls.

Audit pointed out non-recovery in November 2015. The department did not reply.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the department informed that the matter had already taken up with the provincial government for payment against property as per sale agreement. Moreover, the matter is under investigation with NAB.

The DAC directed the Estate Officer to approach NAB authorities to expedite the matter.

The compliance to the DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.16)

#### **5.4.33 Recurring loss to government due to non-recovery of rent from the allottees of shops - Rs 11.15 million**

Ministry of Housing & Works Government of Pakistan vide its letter No. F.4 (24)/978-E III dated 22<sup>nd</sup> July, 2006 approved the revised rent rates of shops under control of Estate Offices, as recommended by the survey committee dated 19<sup>th</sup> March, 2005 to execute/renew the lease agreement with the present occupant of the shops sites at revised monthly rent. It was further decided that the present occupants may be asked to renew lease agreement/hire shops at revised rates with one year advance. In case they fail to accept the offer, ejection proceedings may be initiated against the occupant(s) under Federal Government Land and Buildings (Recovery of Possession) Ordinance 1965 to get the shops sites vacated to rent out through advertisement and open tendering. Further the period of lease may be restricted to five years and revision be made a regular feature.

Rule 26 of GFR provides that it is the duty of the controlling officers to see that all sums due to government are regularly and promptly assessed, realized and duly credited in the Department Account. No department receipt shall be utilized towards contingent expenditure.

Audit noted that Estate Office, Karachi has 218 shops adjacent to government colonies and buildings situated at Martin Road, Jehangir Road, F.C. Area, Nishtar Road, Bath Island, Garden Road and Canteens in A.M Sardar, Karachi.

Audit observed that apparently, Additional Estate Officer, Karachi showed its inability to recover rent from the allottees for Rs 11.15 million from 1<sup>st</sup> July, 2014 to 30<sup>th</sup> June, 2015. The allottees were defaulter since the date of revision of rent i.e. 2002 and rent was being accumulated year by year with the same dues. No action was taken i.e. vacation/ejection of allottees, sealing of shops, destruction of newly construction shops, revision of rent as the rent was not revised since 2006 through execution of fresh lease by public auction.

Audit holds that inefficient utilization of resources and lack of interest of Estate Office resulted into recurring loss to government by non-recovery of Rs 11.15 million.

Audit pointed out loss in November, 2015. The department did not reply.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the department informed that the matter had already taken by the standing committees of National Assembly and Senate Secretariat and soon the matter would be under consideration in Joint session of both the Houses. As regards recovery, an amount of Rs 14.40 million had been effected.

The DAC Pended the Para till the decision of standing committees of N.A and Senate Secretariat and directed Estate Office to get verified the recovered amount and pursue the balance recovery.

The compliance to the DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.33)

#### **5.4.34 Non-recovery of rent at market rate - Rs 4.06 million**

Rule-22 of Accommodation Allocation Rules, 2002 provides that if at any stage it is found that a Federal Government Servant has provided wrong information which may be concerning his seniority, pay scale of his entitlement, etc. including the information provided in the current census form, his accommodation will be cancelled and he shall be liable to disqualification for a period of five years and shall be liable to disciplinary action for misconduct under the relevant rules or laws.

As per General Financial Rule-26 (Vol-I), it is the duty of the Departmental Officer to see that sums due to Government are promptly and correctly assessed, claimed and deposited into Government Treasury.

Audit noted that House No. 82-HG (New 30-H) was allotted to Ex-Additional Secretary on 06.11.2009. Estate Office cancelled the allotment on 14<sup>th</sup> July, 2010 under rule -22 as the allottee was also enjoying the facility of self-hired house. Audit further noted that the services of allottee were terminated w.e.f 29<sup>th</sup> July, 2010. Honourable Islamabad High Court dismissed the petition filed by Ex-Additional Secretary, Senate Secretariat, with the direction to recover the rent at market rate for the period of retention of Government accommodation of its cancellation. In view of Honorable Courts decision, Estate Officer calculated an amount of Rs 4.06 million @ Rs 0.12 million per month from 14<sup>th</sup> July, 2010 to 10<sup>th</sup> May, 2013, and asked the Senate Secretariat for recovery.

Audit observed that Estate Office Islamabad could not recover the amount from the ex-allottee. This resulted in non-recovery of Rs 4.06 million.

Audit holds that the rent was not recovered due to inadequate monitoring system in the department and weak internal controls.

Audit pointed out the non-recovery in September 2015. The department did not reply.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the department informed that action against the defaulter is being initiated under Land and Revenue Act for recovery. The DAC directed Estate Office to actively pursue the recovery of rental ceiling received by the occupant.

The compliance to the DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.8)

**5.4.35 Non-cancellation of lease agreement due to non-recovery of outstanding rent and non-execution of fresh agreement on revised rates - Rs 3.82 million**

Clause 16 of the lease agreement describes that the rent reserved or any part thereof remains unpaid any time for a period of thirty days after it has accrued due (where formally demanded or not) or if any covenant on the lessee's part contained not be performed or observed of, if the lessee becomes bankrupt or compound with his creditors, the lease of the said plot shall be liable to be cancelled and the structure and security money shall be forfeited to the lessor but without prejudice to any right of action on the part of the lessor in respect of any breach of lessee's covenant contained. Terms and Condition No. 2 of lease agreement provides that the lease may be renewed for a further term as lessor approves. Para I of the letter No. F3920/2005-EIII dated 14<sup>th</sup> March, 2009 issued by Ministry of Housing and Works provides that in case of lease agreement executed on or after September, 2007 for a period of 20 years, 25% enhancement rent (compound) will be charged after every 5 years.

Audit noted that the lease agreements were executed by Additional Estate Officer with Mr. Waseem Siddique and M/s Syed Akhlaq Sajid Hashmi (Chinar filling station) for CNG station/petrol Pump thereon on 11<sup>th</sup> October, 2010 and 18<sup>th</sup> April, 2007 at annual advance rent of Rs 0.9 million and Rs 0.5 million.

Audit observed that the Additional Estate Office did not recover outstanding advance rent of Rs 2.70 million w.e.f. July, 2013 to June, 2015 along with difference of rent of Rs 1.12 million due to execution of fresh lease agreement on enhanced rent as the lease agreement were expired in 2012.

Audit holds that agreement was not extended on due date and effected recovery due to inadequate internal controls.

Audit pointed out non-recovery of rent & non-execution of lease agreement in November 2015. The department replied in 1<sup>st</sup> case that the lessee applied for further extension of lease in the light existing policy and has already availed five years period. His case for renewal of remaining 15 years is under process. The notices have been issued to lessee for recovery of outstanding dues.

The reply of the department was not tenable as the lease agreement was expired on September 2012 and the policy has been circulated in March 2009 but no action towards recovery of outstanding dues, imposition of penalty/financial charges/surcharge were taken nor its lease agreement was cancelled in due course of time due to non-payment or execution of fresh lease agreement.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the department informed that the lessee had already availed 05 years period and his case for renewal of remaining 15 years is under process under the existing policy of renewal of lease agreement and notices has been issued for recovery from lessee for outstanding dues. The DAC directed the Estate Officer to make efforts for outstanding recovery and also intimate about the future possibilities of new development regarding land.

The compliance to the DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.37)

#### **5.4.36 Occupation on the basis of fake allotment order and non-recovery of rental ceiling - Rs 1.25 million**

According to Rule 25(1) of Accommodation Allocation Rules, 2002, the Estate Officer shall carry out ejections of unauthorized occupants from the government owned or hired accommodation under Federal Government Land and Building (Recovery of Possession) Ordinance 1965 (LIV of 1965).

Para 25(3) in order to expedite the eviction under sub-rule (1), the Estate Officer shall arrange the disconnection of service like water supply, gas, electricity and telephone of the house under illegal occupation.

Para 25(4) (b) of Accommodation Allocation Rules, 2002 provides that in case of trespassing or unauthorized occupation, rent equivalent to two rental ceilings of the category of his entitlement or the category of the house occupied, whichever is more, shall be charged for each month for the entire period of unauthorized occupation.

Audit noted that House No.13/6, Cat-III, G-10/2 Islamabad was allotted to Mr. Ahsan ul Haq Superintendent, Senate Secretariat who retired on 25<sup>th</sup> May, 2012. After availing the 6 months grace period the allotment of said house was cancelled from 25<sup>th</sup> November, 2012. Later on, a trespasser occupied the house unauthorizedly.

Audit observed that Estate Office failed to get vacation of the house from ex-allottee on due date and the house was further occupied by a trespasser on the basis of fake and bogus allotment orders. Audit further observed that Estate Office did not recover rental ceiling from ex-allottee as well as from the trespasser. This resulted in non-recovery of rental ceiling of Rs 1.25 million.

Audit holds that fake allotment and non-recovery of rental ceiling resulted due to inadequate monitoring system and weak internal controls.

Audit pointed out the fake allotment and non-recovery in September 2015. The department did not reply.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the department informed that Mrs. Shahana Majeed had presented a fake allotment letter and filed a suit in Civil Court. The DAC directed the Estate Officer to pursue the court case actively and effect recovery of rental ceiling from the defaulters under rules.

The compliance to the DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 2)

#### **5.4.37 Non-vacation of government residential buildings from the employees of non-entitled department**

Rule 4 (1&2) of AAR, 2002 provides that the Estate Office shall not place its accommodation at the pool of any other department except the ISI and Ministry of Foreign Affairs and the houses already placed on the pool of Ministry of Foreign Affairs and the ISI shall be restricted to their present number. (2) If funds are provided by the Government to an eligible department for constructing its own residential colony or accommodation, its employees shall cease to be eligible until that colony or accommodation is surrendered to the pool of the Estate Office. Rule-24 ibid provides that the Government may, at any stage cancel the allotment made in violation of the rule in favor of Federal Government Servant including those made to the employees of non-entitled departments.

Audit noted that a long period elapsed after abolishment of accommodation pools but neither the allotments were cancelled under



Rule 24 of AAR-2002 nor the residences were got vacated for further allotments to the eligible employees.

Audit holds that government accommodation was not got vacated due to poor system of monitoring and weak internal controls.

Audit pointed out matter during local audit in September 2015. The department replied that further allotments to the employees of non-entitled departments were ceased.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the department informed that employees of the departments were entitled at the time of allotments. Further allotments to the employees of non-entitled departments were ceased. The DAC directed Estate Officer to get the recovery so effected from the officers / officials of non-entitled departments, verified from Audit and pursue for balance recovery.

The compliance to the DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 14)

#### **5.4.38 Non-existence of policy for renting out government shops**

Estate Offices, Government of Pakistan, besides providing accommodation to Govt. servants is also running commercial concerns like petrol pumps, shops etc. Estate office, Peshawar has twenty (20) shops in its mandate of commercial portfolio.

Audit noted that Estate Office, Peshawar, rented out 20 shops to various persons @ Rs 800 per month, with or without lease agreement. The lease agreement also does not appear to be approved by the Ministry of Housing & Works.

Audit observed that there was no policy guidelines/ framework for the commercial aspect of Estate Office i.e. Auction policy, security money, income tax etc.

The matter was pointed out in September 2015. The department replied that committee was constituted to frame policy for allotment of shops and for remedies of other problems. Meeting of the committee held on 25<sup>th</sup> August, 2015 considered / discussed all the aspects. Security in the shape of Defence Saving Certificates was obtained from every allottee of shop and was in the safe custody of Estate Office, Peshawar.

The reply was evasive. The policy under which Defence Savings Certificate were obtained as Security and other matters regarding allotment of shops was not provided to Audit.

Audit holds that the shops were rented out without approval of any policy by the competent forum.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the department informed that in compliance of Audit observations the competent authority has approved increase in rent from Rs 800 per month w.e.f 1<sup>st</sup> January, 2012 and from Rs 2,500 per month to Rs 3,125 per month w.e.f 1<sup>st</sup> January, 2015 on the recommendation of the shop allotment committee. The DAC directed Estate Officer to rent out the shops through open auction to get maximum rent as per market rate.

The compliance to the DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.12)

#### **5.4.39 Non-preparation of Capital and Revenue accounts of Government residential buildings**

Article-281 & Appendix 2 (1) & (3) of Accounts Code (Volume-IV) provides that the Government will prepare Capital and Revenue Account of residential buildings on Form A.O.59 with the object of reviewing the financial results of the year and determining, whether the annual allowance fixed for maintenance and repair is sufficient to protect Government against any losses arising from the operations of the rules made by it for recovery of rent for residential buildings. The account may be prepared and reviewed at such intervals as may be settled between the Government and the AG or Director General Accounts Works Lahore.

Rule 26 (2) of AAR, 2002 provides that the Estate Office shall send rent demand statement in duplicate to the Ministry, Division, or department provided that the E.O shall not send rent demand statement in respect of offices whose pay rolls have been computerized but shall obtain a rent recovery return produced on computer from the Accounts Office.

Audit noted that Estate Office, Peshawar reconciled an amount of Rs 29.30 million (21.48+7.82) with AGPR Peshawar from 2012 to 2015, on account of deduction of 5% normal rent against 669 residential buildings on Estate Office Pool from the Pay rolls of Government employees, cheques paid by the non-entitled departments and arrears of rent recovered at the time of issuance of NOC under Rule-11.

Audit observed that Capital and Revenue Accounts of the Government Buildings was not prepared to indicate the financial results of the undertaking so that the cost of the service or undertaking may be accurately known as required under the rules. The Estate Office could not succeed to make annual assessment of class-wise and categories-wise receipts of total rent to be originated from the normal rent, penal rent, ceiling rent of Government Accommodations and subsequently to monitor the actual annual receipts realized against demands, and credited to Federal Consolidated Fund. On other hand, the Maintenance grant of Rs 29.30 million at average cost of Rs 43,811 per each house/per annum

was allocated to PPWD by the Government for maintenance and repair of these buildings against average receipt of per quarter per annum but more than 95 % budget is being utilized on Pay & allowance of Maintenance Staff and balance 5% is being utilized for maintenance of all residential buildings. The comparative study of both receipts and expenditure on the maintenance of houses /quarters, revealed that true picture of Government receipts through Capital and Revenue Accounts was not being presented to the Government to take remedial measures for revision of rent or reduce the maintenance cost of the residences according to actual receipt.

Audit pointed out the irregularity in September 2015. The department replied that accounts are being submitted and reconciled with Director General, Accounts Works, Lahore on monthly basis. Separate register has been maintained for collection of standard / ceiling rent.

The reply was not tenable. True picture of Government receipts through Capital and Revenue Accounts was not being presented to the Government to take remedial measures for revision of rent or reduce the maintenance cost of the residences according to actual receipt.

Audit holds that Capital & Revenue Accounts were not being maintained properly due to poor internal and financial controls.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the Committee directed Estate Officer to approach respective Accountant General Offices to get reconciled figures of rent recovery and prepare Capital and Revenue Accounts as required under rules.

The compliance to the DAC's directives was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.15)

**CHAPTER 6**  
**FEDERAL GOVERNMENT EMPLOYEES HOUSING**  
**FOUNDATION**  
**(MINISTRY OF HOUSING AND WORKS)**

**6.1 Introduction**

Federal Government Employees Housing Foundation (FGEHF) was established in 1989 by Ministry of Housing and Works, Government of Pakistan. The FGEHF is a public limited company registered with the Securities and Exchange Commission of Pakistan under Section 42 of Companies Ordinance, 1984. The FGEHF is authorized to initiate, launch, sponsor and implement Housing Schemes for Federal Government Employees in major cities of Pakistan, to make and assist, as far as possible, each of them to have house at the time of retirement or earlier. The Housing Foundation shall not itself setup or otherwise engage in individual and commercial activity or in any function as a trade organization.

FGEHF is under the administrative control of Ministry of Housing and Works.

Objectives of the entity are:

- i. To eradicate shelterlessness for Federal Government Employees, serving and retired and for the other specified groups of people as decided by the Housing Foundation from time to time and assist as far as possible each of them to have house at the time of retirement or earlier, and his dependents in case of his death before retirement on such terms as the Housing Foundation may determine.
- ii. To initiate, launch sponsor and implement Housing Schemes for Federal Government Employees serving and retired and

for other specified groups of people as decided by the Housing Foundation from time to time on ownership basis in Islamabad, the Provincial Capitals and other major cities of Pakistan.

Major functions of the entity are to:

- i. Purchase land and plan, execute, develop, construct, sublet, administer, manage or control works.
- ii. Establish, subsidize, promote, co-operate with, receive into Housing Foundation, become member of, act as or appoint trustees, agents of, delegates for, controls, manage, superintend, give gifts, lend monetary or other assistance to any council as may deem conducive to or to achieve or to further any of the objects and purposes of the Housing Foundation.
- iii. Admit any Federal Government employee to be member of the Housing Foundation on such term and to confer on them such rights and privileges as may be deemed expedient.
- iv. Raise and borrow any moneys and funds required for purposes of the Housing Foundation and on such securities as may be determined.
- v. Work, improve, manage, administer, develop, turn to account lease, mortgage or otherwise dispose of or deal with all or any of the funds, properties and assets of the Housing Foundation.
- vi. Work as town planner, and civil engineer in all its details and to act as consultant, architect, adviser and constructor of buildings, roads bridges, etc.
- vii. Undertake construction of all civil works including buildings, roads, bridges, etc.

## 6.2 Comments on Budget and Accounts (Variance Analysis)

Budget allocation and expenditure of FGEHF for the financial year 2014-15 is as under:

(Rs in million)

Nature	Allocation	Actual Expenditure	Variation Excess/ (Saving)	Variation in %
Non-Development	291.01	330.90	39.89	13.71
Development	9,243.80	43.57	(9,200.23)	(99.53)
<b>Total</b>	<b>9,534.81</b>	<b>374.47</b>	<b>9,160.34</b>	<b>(96.07)</b>

A sum of Rs 291.01 million was allocated for operational expenses for the financial year 2014-15 whereas actual expenditure of Rs 330.90 million was incurred involving savings of Rs 39.89 million which constitutes 13.71% of the budget allocation.

A sum of Rs 9,243.80 million was allocated for development activities for the financial year 2014-15 against which an expenditure of Rs 43.57 million was incurred involving savings of Rs 9,200.23 million which constitutes 99.53% of the budget allocation. This indicated that the development activities could not be undertaken at all.

### Receipts

(Rs in million)

Head of Receipt	Estimated Receipts	Actual Receipts	Variation Excess/ (Shortfall)	Variation in %
Receipt from sales	9,876.30	1,042.65	(8,833.65)	(89.44)
Misc. Receipts	326.00	202.75	(123.25)	(37.81)
<b>Total</b>	<b>10,202.30</b>	<b>1,245.40</b>	<b>(8,956.90)</b>	<b>(87.79)</b>

### **6.3 Brief comments on the status of compliance with PAC's directives**

Directorate General Audit Works (Federal) conducted audit of the accounts of FGEHF during 2011-12 for the first time. This office prepared a Special Audit Report covering the period from 2008-09 to 2010-11 and Regularity Audit Reports for the years 2012-13, 2013-14 and 2014-15 which are yet to be discussed by the PAC.



## **6.4 AUDIT PARAS**

### **Irregularity and Non-Compliance**

#### **6.4.1 Irregular execution of project valuing Rs 1,499.43 million and non-recovery - Rs 267.38 million**

According to clause 60.12 (a) an interest free mobilization advance upto 15% of the contract price shall be paid by the Engineer to the contractor in two equal parts upon submission by the contractor of a Mobilization Advance Guarantee for the full amount in the specified form from a scheduled Bank in Pakistan. According to the Resident Engineer noting, material that can be used in 3 months will be taken for secured advance.

Audit noted that Federal Government Employees Housing Foundation Islamabad awarded a work “construction of infrastructure works for Development of Sectors G-14/1,2,3 & G-15/3 Islamabad” to M/s National Construction Limited on 24<sup>th</sup> August, 2012 at the bid price of Rs 1,499.43 million. An amount of Rs 112.45 million had been paid to the contractor on account of mobilization advance on 6<sup>th</sup> September, 2012.

Audit observed the following irregularities/overpayments in the work:

- The contractor did not provide Bank Guarantee against Mobilization Advance of Rs 112.45 million. Moreover, despite a lapse of about three years only Rs 28.11 million has been recovered leaving a balance of Rs 84.34 million. This resulted in non-recovery of Rs 84.34 million.

The irregularity was reported in October 2015. The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management explained that M/s NCL had deposited an amount of Rs 3.34 million and agreed to adjust Rs 81.00 million against Mobilization Advance through

running bills of assignee Contractor M/s ASCO. The DAC directed the Foundation to hold a Fact Finding Inquiry at Ministry level to determine genuineness of the letter issued by Ministry exempting the NCL for submission of Guarantee against Mobilization Advance. The Committee also directed to ensure handing over of all available area to the contractor and provide recovery plan of Mobilization Advance from the assignee Contractor.

- The Foundation made payment to the contractor without recording detailed measurements of quantities of work done in Measurement Books. This resulted in irregular payment of Rs 56.26 million.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management explained that IPCs prepared by the Consultants be treated as Measurement Books as it contains detailed measurement sheet duly checked and verified by the consultant. The DAC did not agree with the departmental stance and directed that Measurement Books be reconstructed and get verified from Audit.

- The Foundation neither obtained insurance coverage of the work from the contractor nor recovered inbuilt cost of insurance. This resulted in non-recovery of Rs 14.99 million.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management explained that the insurance of the material required in the contract was not considered necessary as there were clauses already enacted in the contract where the contractor was supposed to remove all defective materials and replace those without any cost. The DAC did not agree with the departmental stance and directed the department to get insurance coverage of the work and get verified from Audit.

- The Rate Analysis of market rate items involving Rs 329.27 million were not provided to Audit to ascertain the authenticity of rates.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management explained that rate analysis of non-scheduled items are based on the current market rates duly approved by the Client. The DAC directed the department to provide rate analysis of non-scheduled items duly approved by Director General, FGEHF be got verified from Audit.

- The Foundation accepted bid of the contractor which was 22.75% above the Engineer's Estimate and in excess of the permissible limit of 15% of the Engineer's Estimate. This resulted in award of work in violation of the rules and excessive expenditure of Rs 94.67 million.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management explained that the bidding was done thrice to lower the cost and finally, after the third bidding process, it was felt that cost reduction was not possible, hence, bid of M/s NCL was accepted being single bidder in the best interest of the project. The DAC directed the department to provide justification of the accepted rates as per Planning Commission policy and get the same verified from Audit.

Audit holds that the irregularities occurred due to in-adequate mechanism of enforcing contractual obligations.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.1)

#### **6.4.2 Irregular allotment of plots in Phase-IV without approval of CDA - Rs 36.44 million**

As per practice in vogue, Capital Development Authority of Islamabad controls all the land of Islamabad and gave approvals regarding any transaction of land.

Audit noted that Federal Government Employees Housing Foundation allotted 5,514 plots of Category I, II, III, IV & V under Islamabad Housing Scheme Phase-IV.

Audit observed that out of 5,514 plots, the Foundation created 42 plots (13 plots of Cat-I, 11 plots of Cat-II, 9 plots of Cat-III, 8 plots of Cat-IV and 1 plot of Cat-V) and allotted accordingly without approval of the Capital Development Authority. Audit further observed that in most of the cases, the original allottees sold/transferred the plots. This resulted in irregular allotment of plots without approval of CDA valuing Rs 36.44 million.

Audit holds that irregularity resulted due to weak internal/financial controls.

Audit pointed out the irregularity in October 2015. The Foundation replied that the matter is being investigated by NAB. The inquiry report as and when received will be shared with Audit.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management apprised the Committee that the matter had been referred to NAB on 24<sup>th</sup> October, 2014. The DAC directed that findings of the investigation by NAB as and when completed may be provided to Audit.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.2)

#### **6.4.3 Non-recovery of solid waste management charges from the allottees - Rs 8.27 million**

As per note-78-81 of Deputy Director, Housing Foundation has devised a mechanism of receiving charges on account of collection of garbage and solid waste management from the allottees to meet the expenditure on solid waste management from the respective residents of G-13 (phase-III) and the payment to contractor shall be made good from such receipts.

Audit noted that Federal Government Employees Housing Foundation awarded the work of Garbage Collection from G-13 & G-14/4 Islamabad to M/s Maqsood & Co. for one year with the bid price of Rs 2.12 million per month.

Audit observed that the FGEHF made payment of Rs 8.27 million to the contractor on account of payment for the month of March, April and May, 2015, whereas, recovery of such payments from the residents was not available on record. This resulted in non-recovery of Rs 8.27 million.

Audit holds that recovery was not effected due to weak internal and financial controls.

Audit pointed out the non-recovery in November, 2015. The Foundation replied that Executive Committee of the Foundation decided in its 136<sup>th</sup> meeting held on 2<sup>nd</sup> November, 2015 that keeping in view the hardships of the allottees, charges will be recovered as per rates of CDA.

The reply was not correct. The Foundation has neither raised bills nor reported any recovery on this account.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management apprised the Committee that keeping in view the sufferings of allottees of G-13, Executive Committee in its 136<sup>th</sup> meeting decided that the charges should be recovered from the allottees at CDA rates. The DAC directed the Foundation to provide details of receipts on account of garbage collection from allottees of G-13 and get it verified from Audit.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.7)

#### **6.4.4 Excessive expenditure due to deployment of excessive officers - Rs 0.96 million**

According to sanctioned strength of the FGEHF, there is total sanctioned strength of 13 officers of BS-16 of Deputy Assistant Director.

Audit noted that there were 02 officers working in the Housing Foundation against the above-mentioned sanctioned strength during the financial year 2014-15. Audit holds that deployment of excessive officers caused excessive expenditure in the shape of pays & allowances Rs 960,000.

Audit holds that excess officers were appointed/ deployed due to negligence and weak financial/internal controls.

Audit pointed out the irregularity in November, 2015. The Foundation replied that two Deputy Assistant Directors were promoted un-intentionally and the matter is under inquiry. The Foundation admitted the irregularity.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management informed DAC that the matter is under consideration of HR Committee for regularization. The DAC directed to get the posts regularized from Executive Committee and get verified from Audit within seven (07) days.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.10)

#### **6.4.5 Non-availability of policy regarding cost assessment of plot on transfer to third party resulted in recurring loss to Govt. on account of tax**

As per Memorandum of Articles, the Federal Government Employees Housing Foundation was established to eradicate shelterlessness for Federal Government Employees serving and retired and for other specified groups of people as decided by the Foundation from time to time and assist as far as possible each of them to have a house at the time of his retirement or earlier, and his dependents in case of his death before retirement.

Audit noted that Federal Government Employees Housing Foundation introduced various schemes for Islamabad as well as for provincial capitals and other cities of Pakistan and allotted approximately 19,078 plots/flats to the employees on subsidized rates. Audit further noted that the plots/flats allotted by the FGEHF to the employees were on subsidized rates and less than the actual market value. Later on some allottees sold their plots to private persons at different rates.

Audit observed through scrutiny of transfer/sale cases of plots/flats that there was no proper policy exists in the foundation to assess the prices of plots/flats at the time of sale/transfer. Audit scrutinized some transfer

cases on test check basis and found that the sale/transfer was on far less rates than the market, for example a plot was transferred in the financial year 2014-15 for an amount of Rs 25.00 million, whereas, same size of plot on the same vicinity in the same financial year was transferred for Rs 5.00 million. This position shows that either the plots/flats were sold/transferred on lower rates or the exact amount was not shown to the Foundation to escape from the actual payment of taxes. Audit is of the view that a proper policy is required to be framed and implemented to assess the cost of plot at the time of transfer / sale to third party.

Audit holds that non-availability of proper policy of sale / transfer of plots was due to weak internal/financial controls.

Audit pointed out the loss in October 2015. The Foundation replied that CDA will be contacted to provide the revenue list to adopt the same policy for Housing Foundation for G-13 revenue collection in future.

The Foundation admitted the Audit Para.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management informed that advance tax has been levied on purchase / sale of plot if the sale price exceeds Rs 3.00 million. Most of the sale considerations are recorded below the limit of Rs 3.00 million. The DAC directed the Foundation to seek opinion of Tax Department and share it with Audit.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.11)



## CHAPTER 7

### NATIONAL CONSTRUCTION LIMITED (MINISTRY OF HOUSING AND WORKS)

#### 7.1 Introduction

National Construction Limited (NCL) was incorporated on 16<sup>th</sup> November, 1977 under the Companies Act, 1913, later on replaced with Companies Ordinance, 1984 as unlisted public company. The principal activities of the Company are to carry out the business of construction as consultant, advisor, structural engineer, builder, architect, contractor, job contractor and designer and to engage in other allied activities. The authorized shared capital of the Company is Rs 200.00 million. Issued subscribed and paid up capital is Rs 199.13 million.

#### 7.2 Comments on Audited Accounts

7.2.1 The working results (Profit & Loss Account) of the Company for the year 2013-14 and 2014-15 as compared to the previous years are tabulated below:

(Rs in million)

Description	2012-13	2013-14	% Increase/ (Decrease)	2014-15	% Increase/ (Decrease)
Contract income	1,024.87	614.96	(40.00)	410.89	(33.18)
Cost of work done (Direct cost)	889.2	501.17	(43.64)	331.73	(33.81)
Gross Profit	135.67	113.79	(16.13)	79.16	(30.43)
General and Administrative/indirect cost	71.83	80.75	12.42	66.56	(17.57)
Operating Profit	63.84	33.04	(48.25)	12.60	(61.86)
Financial charges	2.2	4.35	97.73	0.24	(94.48)
Other Operating income	16.77	24.59	46.63	19.09	(22.37)
Profit before taxation	78.41	53.28	(32.05)	31.45	(40.97)

Description	2012-13	2013-14	% Increase/ (Decrease)	2014-15	% Increase/ (Decrease)
Provision for taxation	54.16	41.79	(22.84)	27.51	(34.17)
Profit after taxation	24.25	11.49	(52.62)	3.94	(65.71)
Accumulated profit	117.97	57.09	(51.61)	61.03	6.90

(Source: Annual Audited Accounts of NCL).

Note: Increase/decrease (in %age) has been determined by comparison of 2014-15 with 2013-14 and that of 2013-14 with 2012-13.

**7.2.2** The contract income decreased by 33.18% from Rs 614.96 million in 2013-14 to Rs 410.89 million in 2014-15. The cost of work done decreased by 33.81% from Rs 501.17 million in 2013-14 to Rs 331.73 million in 2014-15. The decrease in income was less than the decrease in cost, resultantly the gross profit margin also decreased by 30.43% in 2014-15 whereas in the previous year it had decreased by 16.13%. However, general and administrative expenses decreased by 17.57% from Rs 80.75 million in 2013-14 to Rs 66.56 million in 2014-15 due to which the operating profit decreased by 61.86% from Rs 33.04 million in 2013-14 to Rs 12.60 million in 2014-15. Efforts needed to be made to increase the profitability of the Company.

**7.2.3** According to Rule 21 of SRO-180 (i)/2013 dated 8<sup>th</sup> March, 2013 having effect from 6<sup>th</sup> July 2013, the Board shall establish an audit committee. The names of members of the audit committee shall be disclosed in each annual report of the Public Sector Company. Annual Report of National Construction Limited has revealed that the management could not act upon the provision of Rule 21 of SRO 180.

**7.2.4** According to Article 90 of Articles of Association of National Construction Ltd., a balance sheet shall also be prepared every year and laid before the Company in General Meeting. The said account and balance sheet shall be accompanied by such reports and documents and shall contain such particulars as are prescribed by the Ordinance and the Directors shall in their report state the amount which they recommend to be paid by way of dividend, the amount (if any) which they propose to carry to any reserve fund.

The issued, subscribed and paid up capital of M/s NCL was Rs 199.13 million equal to 19,913,340 ordinary shares of Rs 10 each. There was no movement in share capital during the year 204-15. Profit and loss account of the company for the year ended on 30<sup>th</sup> June, 2015 showed profit after taxation for Rs 3.94 million with earning per share of Rs 0.19. Annual Report for the year 2014-15 revealed that the Company had not paid any dividend to its shareholders viz. M/o Housing and Works, National Bank of Pakistan and National Investment Trust. The reports showed unappropriated profits (retained earnings) of Rs 57.09 million as on 30<sup>th</sup> June, 2014 and Rs 61.03 million as on 30<sup>th</sup> June, 2015.

### **7.3 Brief comments on the status of compliance with PAC's directives**

The Directorate General Audit Works (Federal) conducted audit of the accounts of NCL for the first time during 2013-14. Previously the entity was under the auditorial jurisdiction of Directorate General Commercial Audit. Audit Reports for the year 2013-14 and 2014-15 prepared by this office are yet to be discussed by PAC.

## **7.4 AUDIT PARAS**

### **Irregularity and Non-Compliance**

#### **7.4.1 Non-adjustment of Mobilization Advance - Rs 170.14 million**

According to clause 60.12 and provisions of contract data, an interest free mobilization advance up to 15 % of the contract price stated in the Letter of acceptance shall be paid by the Employer to the Contractor in two equal parts upon submission by the Contractor a mobilization advance Guarantee/Bond for the full amount of the Advance in the specified form from a scheduled Bank in Pakistan or an Insurance Company acceptable to the Employer. The advance shall be recovered in equal installments; first installment at the expiry of third month after the date of payment or first part of Advance and the last installment two months before the date of completion of the works as per Clause 43 thereof.

The management of National Construction Ltd could not adjust Mobilization Advance with the client department against various projects upto 30<sup>th</sup> June, 2015. It has been further observed that against the total outstanding Mobilization Advance of Rs 170.14 million, the available balance in the project bank account is Rs 8.66 million which is only 5% of the outstanding liability, and the where about of the reaming 95% was not traceable.

Audit holds that adjustment of Mobilization Advance was not got adjusted due to weak internal and financial controls.

Audit pointed out non-adjustment of Mobilization Advance in November, 2015. The Company replied that in NCL's accounting mechanism, there were Collection Accounts where the receipts from the clients are deposited. As such, there are no separate accounts maintained for Mobilization Advance. Mobilization Advance is issued to the contractor which is deducted on agreed %age rate from every IPC/

Running Bill as & when the Bills are presented for payment. It is a continuous process and the decreasing balance of Mobilization advance always exists till the final billing of the project. Further, almost in every project, there are some bills against work done pending for payment with the client. In this case, expenditures are already incurred, so bank balances do not match with the payments / Mobilization Advance adjustments. Same is the case in the projects pointed out by the Audit. With regard to PHA App. Quetta, Rs 9,400 million were received against a job which was substantially completed and an adjustment Bill against work done amounting to Rs 6.59 million was submitted to the client while remaining Rs 2.80 million were returned to the client through a Pay Order. So there is a zero balance in the Bank A/C in the respective Project. In case of SEC Projects, the work was stopped due to devolution of the client Ministry to the provinces under 18<sup>th</sup> Amendment in 2010. Since then, no patronage is available by Provincial Govt. to these projects, however as and when the work resumed, these advances at SEC Mirpur Khas & Sibbi would be adjusted against work done. On account of G-14, Islamabad project, The Mobilization Advance received is not adjusted at the desired pace due to the fact that client remained unable to give possession of the project area. Only, 27% land has been provided in 2<sup>nd</sup> quarter of 2015 & work was now gaining momentum.

The reply of the Company was not tenable because the accounts of these projects are silent regarding adjustable mobilization advances.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management of NCL apprised the Committee regarding status of adjustments / deductions of each project and the balances of the clients available with the Company. The Company also informed that the matter for early recovery from the clients was being actively pursued. The DAC directed the Company to complete recovery and its verification from Audit within seven days.

The compliance to the DAC's directive was not made till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.5)

#### **7.4.2 Non-adjustment / recovery of advances - Rs 76.79 million**

There exists no provision for advances to the sub-contractors in the contract agreement.

Audit noted that the management of National Construction Limited, Islamabad made payment of advances to different sub-contractors of Quetta Water Supply Project worth Rs 76.79 million upto June, 2015. The advances were lying unadjusted upto June, 2015 from two to five years.

Audit observed that the management did not adjust / recover long outstanding advances. Audit further observed that the advances were paid without any bank guarantee and provision in the agreement.

Audit holds that financial resources of the Company were put to risk because of non-obtaining of bank guarantee in lieu of these advances and Company's resources were overburdened.

Audit holds that recovery of advances from the defaulting contractors / suppliers was not effected due to weak internal and financial controls.

Audit pointed out the non-recovery in November 2015. The Company replied that the advances were granted against work done and were fully secured against their pending liabilities. The project was awarded on Cost plus Basis and all the payment vouchers and documents are submitted to the Client in original for reimbursement of cost of the projects.

The reply was not tenable because no record relating to security of advances and recovery was produced to Audit for verification.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management of NCL informed DAC that most of the advances were against work done and fully secured against pending liabilities whereas, the remaining amount of Rs 76.79 million pertains to Quetta Water Supply Project and the company is pursuing matter vigorously for effecting recovery. The DAC directed the Company to complete recovery and its verification from Audit within seven days.

The compliance to the DAC's directive was not made till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.4)

## CHAPTER 8

### PAKISTAN HOUSING AUTHORITY FOUNDATION (MINISTRY OF HOUSING AND WORKS)

#### 8.1 Introduction

Pakistan Housing Authority Foundation (PHAF) is a Public Company registered with Securities and Exchange Commission of Pakistan under Section 42 of the Companies Ordinance, 1984. The major objectives/services entrusted to PHA Foundation are as under:

- i. Being one of the implementing arms of the Ministry of Housing and Works, PHA Foundation is mandated to eliminate shelterlessness and to reduce the housing shortfall in Pakistan.
- ii. PHA Foundation provides low cost housing units to low and middle income groups of Pakistan on ownership basis. Since its inception in 1999, PHA Foundation has built several housing units for general public and Federal Government Employees in Federal and Provincial capitals to provide high quality and state-of-the-art buildings at low and affordable price.
- iii. In addition to Ground plus 3 building apartments, PHA Foundation has undertaken to construct high rise buildings. Construction of PHA-Maymar Towers in Karachi is first endeavor in this respect.

Regional offices have also been established in Lahore and Karachi to provide services to the allottees of the respective areas.



## 8.2 Comments on Budget and Accounts/Financial Statements (Variance Analysis)

8.2.1 The table below shows the position of budget and expenditure of PHA Foundation for the financial year 2014-15:

(Rs in million)

Nature	Original Budget	Expenditure	Excess/ (Saving)	Excess/ (Saving) in%
<b>Non-Development (Operational)</b>	<b>164.64</b>	<b>134.00</b>	<b>(30.64)</b>	<b>(18.61)</b>
Salary	133.77	118.84	(14.93)	(11.16)
Non-salary	30.87	15.16	(15.71)	(50.87)
<b>Development</b>	<b>3,299.68</b>	<b>406.27</b>	<b>(2,893.41)</b>	<b>(87.69)</b>
<b>Grand Total</b>	<b>3,464.32</b>	<b>540.27</b>	<b>(2,924.05)</b>	<b>(84.40)</b>

### Revenue

(Rs in million)

Estimated Receipt	Actual	Surplus/ (Deficit)	% of actual to the estimate
4,189.59	707.63	(3,481.96)	16.89

8.2.2 Against approved development budget of Rs 3,299.68 million, Pakistan Housing Authority Foundation incurred expenditure of Rs 406.27 million which constituted 12.31% of the budget. The funds were short utilized by Rs 2,893.41 million which showed that development targets were not achieved.

8.2.3 Revenue target was fixed at Rs 4,189.59 million for the financial year 2014-15. Actual receipts of Rs 707.63 million (16.89%) could be realized. The deficit in receipt is Rs 3,481.96 million (83.11%).

**8.2.4** PHA Foundation was created through a resolution issued by Cabinet Division dated 18<sup>th</sup> May, 1999 titled “Prime Minister’s Housing Authority” which was re-designated as PHA Foundation through another resolution dated 8<sup>th</sup> March, 2000. Clause 14 of both the resolutions states that the Authority shall maintain proper accounts and other relevant record and annual statement in such form as may be prescribed by rules. Subsequently, the Authority got registered itself from the Securities and Exchange Commission of Pakistan on 19<sup>th</sup> January, 2012 under Companies Ordinance 1984. Section-230 of the Ordinance inter alia states that annual accounts/statements shall be prepared for all sums of money received and expended by the company. Section 230(7) also requires punitive measures in case of failure in non-preparation of accounts. Rule 15 of GFR (Vol-I) also states that every one whose duty is to prepare and render any accounts or returns in respect of public money or stores, is personally responsible for their completeness and strict accuracy and their dispatch within the prescribed time.

The issue of non-preparation of financial statements by PHAF since 2009 was pointed out by Audit during 2013-14. On pointation of Audit, PHAF has started preparing year wise financial statements and getting the same certified from Chartered Accountant firms. During current audit, it was observed that certified financial statements for the financial years 2013-14 and 2014-15 were not available with PHAF. However, the certified financial statements of PHA Foundation, Islamabad (certification conducted by various Chartered Accountant firms) for the years 2008-09 to 2012-13 indicated that the Auditors Opinions contain serious qualifications of recurring nature. Qualifications as included in Auditor’s opinion for the year 2012-13, are as under:

- a. The Auditors were unable to physically verify property, plant and equipment, cash & cash equivalent and petty cash at hand as on 30<sup>th</sup> June, 2013.
- b. The Auditors were unable to obtain sufficient appropriate evidence regarding the basis of calculation of cost of sales of Rs 35.75 million.

- c. The management did not provided the Auditors with the ageing analysis of withholding taxes payables, other liabilities and payables to contractors/consultants. The Auditors were, therefore, unable to quantify the impact of penalty and/or surcharge and/or escalation claims to be paid on delayed payments.
- d. Work in progress for Rs 4,087.65 million has not been valued in line with the accounting policy as described in Note 3.6 to the financial statements. Instead, the work in progress has been valued at cost incurred to date on the projects. In addition to it, the management does not maintain the project wise data. The data is maintained on contractor wise/head wise basis. In the absence of working of cost and/or net realizable value of each individual project, the financial impact cannot be quantified.
- e. The project wise details of each individual allottee have not been provided to the Auditors, restricting to ascertain the receivable and /or from the individual allottees. Likewise the project wise details of costs have not been provided. The management holds data on contractor wise/head wise basis and thus the cost of each individual project is difficult to be ascertained with reliability.

The Chartered Accountants have further certified that because of the significance of the matters described in paragraphs (a-e) above, the Balance Sheet, Income and Expenditure Account, Cash Flow Statement and Statement of Changes in Equity together with the Notes do not conform with approved accounting standards and do not give information required by Companies Ordinance, 1984, in the manner so required and respectively **do not give a true and fair view of the state of the Foundation's affairs** as at 30<sup>th</sup> June, 2013 and of the Surplus, its cash flows and changes in equity for the period then ended.

Audit is of the view that responsibility for not preparing the financial statements giving true and fair view of the state of affairs as of 30<sup>th</sup> June, 2013 may be fixed.

### **8.3 Brief comments on the status of compliance with PAC's directives**

Directorate General Audit Works (Federal) conducted audit of the accounts of Pakistan Housing Authority Foundation for the first time during 2013-14. In past, the entity was under the auditorial jurisdiction of Directorate General Commercial Audit. Audit Reports for the year 2013-14 and 2014-15 are yet to be discussed by PAC.

## **8.4 AUDIT PARAS**

### **Non-Production of Record**

#### **8.4.1 Non-production of record relating to MS Wing of Pakistan Housing Authority Foundation**

In terms of Section 14 (2) of Auditor General's Ordinance, 2001, non-production of record amounts to be hindrance in the auditorial functions of the Auditor General of Pakistan. Section 14 (2) states "the officer in-charge of any office or department shall afford all facilitates and provide record for audit inspection and comply with requests for information in complete form as possible and with all reasonable expedition".

Managing Director, Pakistan Housing Authority Foundation (PHAF), Islamabad did not produce auditable record pertaining to Maintenance Services Wing (MS Wing) as detailed below:

1. Files regarding creation of MS Wing
2. Advertisement for appointments in PHFA/MS Wing
3. Approval of recruitment of staff for MS wing
4. Recruitment record alongwith appointment files alongwith detail of 286 staff appointed for MS Wing
5. Sanctioned and Working strength of MS Wing
6. Bank Reconciliation of the Bank Account opened for MS Wing
7. Record relating to collection and deposit of receipt
8. Detail of Expenditure
9. Record relating to disbursement of salaries
10. Cash Book of MS Wing
11. Detail of NOCs issued by the MS Wing for transfer of apartments or otherwise.
12. Record relating to abolishment of MS Wing and termination of services of employees of MS Wing
13. Detail of employees still working
14. Salary disbursement record

15. SOP of MS Wing
16. Copy of Inquiry Report conducted by Syed Asad Ali
17. Service Rules of PHAF

In absence of record pertaining to these samples, Audit was not able to examine the procedure of appointment of staff, their posting, collection and deposit of receipt and disbursement of salaries to the employees of MS Wing.

Audit pointed out the non-production of record in November, 2015. The management replied that the Board of Directors PHAF nominated Chief Finance and Accounts Officer Ministry H&W and Deputy Financial Advisor (H&W) to probe into the matters relating to MS Wing. The matter is also under investigation in NAB. Most of the available record is under custody of the NAB. However, after finalization of the Inquiry Reports, the department will take action accordingly and the reports will be submitted to Audit.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management of PHAF informed DAC that the record was with NAB and FIA. The DAC directed to provide seizure memo to Audit. The Committee also directed to produce the record to Audit as and when returned by the investigation agencies.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.11)

## **Irregularity and Non-Compliance**

### **8.4.2 Loss due to irregular waiver of delayed payment charges - Rs 1,041.73 million**

According to terms and conditions of allotment, delayed charges @ 2% per month of installment price were to be levied and recovered from the allottees of the house of Cat-I, II and III at Kuri Road, Islamabad. The allotment was subject to strict adherence to the terms and conditions as laid down in the brochure of the scheme and regular clearance of all dues as per schedule conveyed.

Audit noted that Pakistan Housing Authority Foundation conceived a housing scheme at Kuri road, Zone-IV Islamabad for the officers of Federally Constituted Occupational Groups (BPS 20-22), Later on, the eligibility criterion for allotment of housing unit into category I, II and III was extended to all Federal Government Officers of BPS-20 to BPS-22 including ex-Cadre officers and allotment was to be made on 'first come first serve' basis after publicity in press. The sizes of housing units for BPS 22, 21 and 20 are 50'x 90', 40'x 80' and 30'x 60' respectively. The scheme was launched on 9<sup>th</sup> February, 2012. There are 588 units in Kuri road project.

Twenty percent (20%) of price of housing unit along with non-refundable enlistment fee of Rs 3,000 was to be deposited as down payment with application Form on or before 30<sup>th</sup> December, 2011. The remaining 80% was payable in 6 quarterly installments as under:

- First installment on or before 30<sup>th</sup> March, 2012
- Second installment on or before 30<sup>th</sup> June, 2012
- Third installment on or before 30<sup>th</sup> September, 2012
- Fourth installment on or before December, 2012
- Fifth installment on or before 30<sup>th</sup> March, 2013
- Sixth installment on or before 30<sup>th</sup> June, 2013

Audit further noted that the allottees did not pay the balance quarterly installments of 80% of Rs 3,255.42 million (Rs 4,069.28 million x 80%-Grey structure) which were due upto 30<sup>th</sup> June, 2013 due to suspension of development work on site by the Contractor. The allottees of the housing units requested for waiver of delayed payment charges till resumption of work. The matter of waiver of delayed charges was placed in 15<sup>th</sup> Board meeting held on 15<sup>th</sup> April, 2014. The Board decided that “Delayed payment charges may be waived off from date of suspension of work till resumption of work at Kuri Road project, Islamabad”.

Audit observed that as result of decision of the Board, the delay charges on the due installment of Rs 1,041.73 million (approximate) (3,255,422,028 x 2% x 16 month) for the period from 28<sup>th</sup> November, 2012 to September, 2014 were waived off in violation of the terms and conditions of the allotment. This resulted in irregular waiver off delay charges of Rs 1,041.73 million.

Audit holds that due to non-adherence to the terms and conditions of allotment of the housing units and the failure of management to protect the Authority’s interest from compromise, the Authority was deprived from a cash flow of Rs 1,041.73 million.

Audit pointed out the loss in November 2015. The management replied that due to different technical reasons, construction / development work at site remained slow due to which members / allottees showed their reservations and approached this office from time to time and raised their grievances that the construction work at the site is not up to mark, therefore, levy of delayed payment charges is not justified. Many allottees also threaten to approach the Courts and they also demanded interest on their deposited payments. It is also to mention that the construction work at site remained fully suspended from October 2012 to November 2014, therefore, keeping in view the construction work at site and grievances of the allottees, the matter of waiver of delayed payment charges was placed in the meeting of Board of Directors. PHAF Board, after detailed deliberation and in the light of the genuine grievances of the allottees,



PHAF approved the waiver of delayed payment charges from the date of suspension till the resumption.

The reply was not convincing. As per terms and conditions of allotment, first installment was to be paid by the allottees on 30<sup>th</sup> March, 2012 and last and sixth installment was to be deposited upto 30<sup>th</sup> June, 2013. Suspension of work does not have relation to the change of Terms and Conditions of the allotment towards recovery of delay payment charges. Waiver off delay payment charges (2%) is violation of Terms and Conditions of allotment which deprived the Foundation from receipt of Rs 1,041.73 million.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management of PHAF informed DAC that keeping in view delay in construction work at site and grievances of the allottees, Board of Directors in its 15<sup>th</sup> meeting approved the waiver of delayed payment charges from the date of suspension till the resumption of work. The Committee observed that waiver of delay charges was against the terms of allotment of plots and directed PHAF to review the matter in the light of conditions of allotment and effect due recovery of delay charges.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.12)

#### **8.4.3 Delay in development works due to non-recovery of outstanding dues - Rs 766.51 million**

Rule-26 of General Financial Rules (Vol-I) provides that it is duty of the departmental officer to see that all sums due to government are promptly assessed, realized and credited into public account.

Audit noted that Pakistan Housing Authority Foundation, Islamabad allotted houses and apartments to federal government employees and general public in various housing schemes at different locations.

Audit observed that allottees did not pay installments regularly as per schedule of payment from the date of allotment and action towards recovery of outstanding dues or cancellation of these allotments after forfeiture of 10% of the price of the houses / apartments was not initiated. The act of negligence resulted in delay of development of work and deprived PHAF of a receipt of Rs 766.51 million.

Audit holds that recovery of installments and delayed payment charges was not made due to deficient revenue-recognition policies, disregard to the rules/regulations and agreed payment schedule.

Audit pointed out the non-recovery of outstanding dues in November, 2015. The management replied that PHAF is making all out efforts to recover the dues from the allottees as per terms and conditions of allotment. In this regard, PHAF has issued several reminders and cancellation notices to such allottees against which recovery of outstanding dues is in progress. It is also to mention here that in case on any default in making payments, delayed payment charges as per prescribed rate is also levied. Some allottees of G-10 & G-11 approached the courts against the levy of the additional charges and courts have granted the stay orders in favour of the allottees due to which PHAF is unable to made recovery from such allottees. However, PHAF is actively perusing the court cases and trying to vacate the stay orders so that recovery can be made.

The reply was not tenable. In most of the cases, allottees are not paying due installments due to delay in completion of the projects and non-handing over of the apartments to the allottees in time. People went to courts delay in completion and charging of extra cost due to slackness on the part of the Authority.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management of PHAF informed DAC that department is making all out efforts to recover dues from allottees and has issued several notices of cancellation of allotments. It was further informed that major portion of dues relates to Kuri Road project, due to rescheduling of installments and waiver of delay payment charges as the work remained suspended. Moreover, some allottees have approached courts against the levy of the additional charges. The DAC directed the Authority to effect recovery of outstanding dues from the allottees alongwith delayed charges besides actively pursuing court cases.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.18)

#### **8.4.4 Non-obtaining of insurance of works and contractor's Equipment worth Rs 666.72 million and non-recovery of 2 % insurance premium - Rs 11.59 million**

According to clause 21.1 – 25 of agreement, the contractor was bound to provide insurance policies for the persons, works and equipment etc of the contract price plus 15 %. He was also required to get third party insurance (including employer's property) against liabilities for death of or injuries to any person or loss or damages to the property arising out of the performance of the contract. The Contractor shall provide evidence to the Employer as soon as practical but in any case, prior to the start of the work all at site.

Audit noted that management of Pakistan Housing Authority Foundation, Islamabad awarded infrastructure development work of housing scheme for Federal Government Officers at Kuri Road Zone-iv Islamabad to M/s Maaksons (Pvt) Ltd at agreement cost of Rs 579.76

million. The work was started on 22<sup>nd</sup> March, 2012 to be completed in 18 months upto 21<sup>st</sup> November, 2013.

Audit observed that the work was started 22<sup>nd</sup> March 2012 but the management could not get insurance covers as per provisions of agreement. In this way, the contractors saved about 2 % of contract cost of Rs 11.76 million (579.76 million x 2 %) of premium included in the bid offered. This resulted in non-provision of insurance cover to the property of the Government costing Rs 666.72 million (Rs 579.76 million + 15%) and non-recovery of Rs 11.76 million.

Audit holds that non-obtaining of insurance cover was due to non-adherence to the contractual clauses and poor internal control systems.

Audit pointed out the non-obtaining of insurance cover in November, 2015. The management replied that the work of the subject project shortly after commencement, remained suspended for about three (3) years till October 2014. The Contractor's Personnel, Equipment & Machinery were not operational. Therefore, the need for the Contractor's Insurance Policies for Works, Personnel/ Labour and Contractor's equipment were not justifiable neither was of any practical effectiveness.

The reply was not correct as the contractor has to submit the required insurance covers prior to start of work. Further, the Contractor submitted his bid after considering all his overheads including insurance covers.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management of PHAF informed that the work remained suspended for about 3 years till October, 2014 and during the said period equipment and machinery were not operational, hence, need for contractor's insurance policy for works, personnel, labour, equipment and machinery were not justifiable. The DAC did not agree with the departmental stance and directed the department to get the insurance cover of the current period from the contractor immediately and effect recovery

from the contractor on account of premium of un-insured period within seven (07) days.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 4)

#### **8.4.5 Execution of works without obtaining IEE and EIA - Rs 663.48 million**

Initial Environmental Examination (IEE) and Environmental Impact Assessment (EIA): "Section 12 of Pakistan Environmental Protection Act 1997 states that no proponent of a project shall commence construction or operation unless he has filed with the Government Agency designated by Federal Environmental Protection Agency or Provincial Environmental Protection Agencies, as the case may be, or where the project is likely to cause an adverse environmental effects an environmental impact assessment, and has obtained from the Government Agency approval in respect thereof".

**8.4.5.1** Audit noted that the Pakistan Housing Authority Foundation (PHAF) awarded a work "Construction of "E" Type apartments at CGE Colony Lahore" to M/s Iftikhar & Co (Pvt.) Ltd. at agreement cost of Rs 83.72 million. The work was commenced on 27<sup>th</sup> January, 2009 to be completed upto 31<sup>st</sup> December, 2010 which was extended upto 31<sup>st</sup> December, 2013.

Audit observed that the Pakistan Housing Authority Foundation (PHAF) started execution of the work without proper designing for disposal of sewage and obtaining Initial Environmental Examination (IEE) and Environmental Impact Assessment (EIA) as required under rules. Resultantly, Punjab Environmental Protection Agency during their visit on 8<sup>th</sup> July, 2014 to the site of the work to ascertain the implementation of the

provisions of Punjab Environmental Protection Act, 1997 (amended 2012) observed that:

- (a) All flats have been established without any sewerage line for disposal of sewage.
- (b) Three sectioned septic tanks have been established alongwith the soakage well having approximate depth 60-80 feet. Injection of wastewater / sewage into subsoil through soaking well will contaminate groundwater.
- (c) This was found unlawful in ethical and illegal and will cause spreading of water borne diseases.

Audit holds that project having cost of Rs 83.72 million was approved without proper designing of sewage system and Initial Environmental Examination (IEE) and Environmental Impact Assessment (EIA).

Audit pointed out the irregularity in November, 2015. The management replied that the project was started after carrying out proper initial Environment examination (IEE) and environmental impact assessment (EIA).

The reply was not tenable because site survey was carried out by the District Officer (Environment) Lahore on 8<sup>th</sup> July, 2014 and observed that all flats have been established without proper sewerage system which will cause and spread water borne diseases and served the challans to the Deputy Director (Engineering) PHA-F.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management of PHAF informed DAC that the project was started after carrying out proper Initial Environment Examination (IEE) and Environmental Impact Assessment (EIA). The DAC directed to provide EIA to Audit for verification within seven (07) days.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.19)

**8.4.5.2** Audit noted that the Pakistan Housing Authority-Foundation, Islamabad awarded the work "Infrastructure Development Works of Housing Scheme for FG Officers Residencia at Kuri Road, Zone-IV Islamabad" was awarded to M/s MAAKSONS (Pvt.) Ltd. at agreement cost of Rs 579.76 million with completion period of eighteen months (18) from the date of start of work with effect from 22<sup>nd</sup> March, 2012.

Audit observed that the Pakistan Housing Authority Foundation (PHAF) started execution of the work without Initial Environmental Examination (IEE) and Environmental Impact Assessment (EIA) as required under rules. This resulted in irregular execution of work of Rs 579.76 million.

Audit holds that project was approved without Initial Environmental Examination (IEE) and Environmental Impact Assessment (EIA) due to weak internal controls and slackness on the part of the Project Management.

Audit pointed out the irregularity in November, 2015. The management replied that the preparation of IEE and EIA report is in under process, once finalized, the Audit will be informed accordingly.

The PHA-F has admitted that the work has been started without Initial Environmental Examination (IEE) and Environmental Impact Assessment (EIA) as required under rules.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management of PHAF informed DAC that preparation of Initial Environment Examination (IEE) and Environmental Impact Assessment (EIA) report is under process and soon would be finalized. The DAC viewed the matter seriously and directed the Authority to

initiate action against the responsible (s) for starting the work without getting EIA.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.20)

**8.4.6 Extra cost to the beneficiaries of Rs 77.07 million due to suspension of work and non-imposition / recovery of liquidated damages - Rs 57.98 million**

According to Contract Data and Clause 47 of the agreement, the time allowed for carrying out the work as entered in the tender was to be strictly observed by the contractor being deemed to be essence of the contract. In case of his failure to comply with this condition, he was liable to pay compensation amount equal to one percent or such smaller amount as the Engineer-in-Charge may decide maximum to 10 percent of the estimated cost of the work as shown in the tender.

Audit noted that management of Pakistan Housing Authority Foundation, Islamabad awarded infrastructure development work of Housing Scheme for Federal Government Officers at Kuri Road Zone-iv Islamabad to M/s Maaksons (Pvt) Ltd at agreement cost of Rs 579.76 million. The work was started on 22<sup>nd</sup> March 2012 to be completed in 18 months upto 21<sup>st</sup> November, 2013.

Audit observed that:

- i. The infrastructure development work of Kuri road was started on 22<sup>nd</sup> March, 2012 which was to be completed upto 21<sup>st</sup> November, 2013. The work remained suspended from November, 2012 to September, 2014 due to improper design and poor top supervision by the Design Consultants.



The Contractor could only complete 32.47% upto IPC-15 for Rs 188.25 million which reflects poor performance of the contractor / supervising consultants but no action was taken against the Contractor or Consultants for suspension and delay in execution of work.

- ii. The contract cost has been increased from Rs 579.76 million to Rs 648.79 million due to defective design by the Design Consultants, suspension of work and poor performance of the Contractor.
- iii. Escalation of Rs 8.04 million upto 15<sup>th</sup> IPC paid 22<sup>nd</sup> September, 2015 resulted due to delay in execution of the project.
- iv. Liquidated damages due to delay in execution of the work of Rs 57.96 million have neither been imposed nor recovered.

Audit holds that non-taking of action against the Consultants and Contractor resulted in extra cost in shape of contractor's overhead and escalated price of basic material and will ultimately burden on the beneficiaries.

Audit holds that delay in punitive action against the contractor was due to non-adherence to the contractual obligations and poor internal control system.

Audit pointed out the non-imposition/recovery of liquidated damages in November 2015. The management replied that the infrastructure works of the project remained suspended due to some technical, contractual and financial issues. The works were recommenced in October, 2014 after appointment of full time resident construction supervision Consultants. All the technical, contractual and financial issues have now been settled and the Contractor has been granted Extension of Time up to 28<sup>th</sup> February, 2016 pursuant to sub-clause 44.3 of Conditions

of Contract. Since the Extension of Time has been granted up to 28<sup>th</sup> February, 2016, therefore, the imposition of Liquidated Damages does not apply in the instant case.

The reply was not tenable. The infrastructure works remained suspended due to faulty design and absence of top supervision by the Design Consultants as per agreement but no action against the Design Consultants was taken as per agreement signed with them.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management of PHAF informed that extension had been granted up to 28<sup>th</sup> February, 2016 on the recommendation of the Engineer of the project. Moreover, the fee invoice of the consultant amounting to Rs 4.12 million had not been paid due to design issues. As regards escalation, the same had been paid according to PEC standard procedure and formula for price adjustment by granting extension of time. The DAC directed PHAF to investigate the factors which resulted in suspension of work and delay in completion and take action against the responsible (s).

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.3)

#### **8.4.7 Unauthorized obtaining of Performance Guarantees and non-extension - Rs 43.49 million**

According to Part-I General conditions clause 10.1, "the contractor shall provide Performance Security to the Employer in the prescribed form. The said security shall be furnished or caused to be furnished by the contractor within 28 days after the receipt of the Acceptance Letter. The Performance Security shall be of an amount equal to 10% of the contract price stated in the Letter of Acceptance. Such security shall, at the option of the bidder, be in the form of either Bank Guarantee from any schedule

bank in Pakistan or bank located outside the Pakistan duly counter guaranteed by a schedule bank in Pakistan or an insurance company at least AA rated from PACRA/JCR. As per clause 10.4 the Performance Security shall be binding irrespective of changes in the quantities or variations in the work or extensions in the time for completion of the work which are granted or agreed upon the provisions of the contract.

Audit noted that the Pakistan Housing Authority Foundation (PHAF) awarded various works to different contractors.

Audit observed that Performance Guarantee were not got extended after expiry of validity period. Audit also observed that the Performance Guarantees were not obtained from 'AA' rating Insurance Companies. This resulted in obtaining of insurance guarantees from 'A' rating companies and non-extension after expiry of validity period of Rs 43.49 million.

Audit holds that irregularities occurred due to negligence and non-adherence to the provision of the agreement.

Audit pointed out the irregularity in November, 2015. The management replied that two projects have already been completed and further extension of their performance guarantee is not required. Performance Guarantee of one project has been got extended upto June, 2016. Moreover, retention money equal to 5% of project cost and final bills have been retained till the handing over of project as a security measures.

The reply was not tenable. Performance Guarantees should have been valid upto satisfactory expiry of maintenance period. The Performance Guarantees were not valid upto the maintenance period hence, needs re-validation / extension and as per tender documents, Performance Guarantees were to be obtained from Scheduled Banks or the Insurance Companies having AA rating from PACRA/JCR. The Guarantees are not considered valid, therefore, charges of the un-insured period may be recovered from the Contractor.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management of PHAF informed DAC that two (02) out of three (03) projects had already been completed and further extension of their Performance Guarantees was not required, whereas, performance guarantee of rest of the project had been got extended up to June, 2014. Moreover, retention money and final bills of the contractors concerned had been retained. The DAC was convinced and directed the Authority to effect recovery of difference of premium of 'AA' and 'A' rating company and get verified from Audit within seven (07) days.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 13)

#### **8.4.8 Overpayment to contractor due to excess measurement of surplus earth - Rs 42.51 million**

NHA specification for earth cutting in specified areas to required grade and level for made up elevation including leveling in accordance with sections and grades in specified areas was adopted. As per nomenclature of the BOQ item (A-1), only surplus material was required to be stocked at site as directed by the Engineer.

Audit noted that management of Pakistan Housing Authority Foundation, Islamabad awarded infrastructure development work of Housing Scheme for Federal Government Officers at Kuri Road Zone-iv Islamabad to M/s Maaksons (Pvt) Ltd at agreement cost of 579.76 million. The work was started on 22<sup>nd</sup> March 2012 to be completed in 18 months upto 21<sup>st</sup> November, 2013.

Audit observed that quantity of 8,141,976 cft of BOQ item A-1 (Earth cutting etc) was paid to contractor upto 15<sup>th</sup> IPC. The earth was

stocked at site as surplus. A quantity of 6,159,557 cft out of 8,141,976 cft was shown as utilized / filled in specified areas vide item No-A-2 and A-3 leaving a balance of 1,982,419 cft. Balance quantity of 1,982,419 cft was required to be stocked at site as surplus earth instead of total quantity of excavated earth which resulted in an overpayment of Rs 42.51 million.

Audit holds that overpayment resulted due to non-adherence to the specification and weak internal controls.

Audit pointed out the overpayment in November, 2015. The management replied that no item for Area Development exists in the NHA Specifications. From the definition of Item A-1 and A-2, it is evident that both are separate pay items with no deductions for any utilization or stocking of earth were to be made. Since at this stage, there were numerous pockets of land which were under dispute with the locals and that the locals had obtained Stay Order from the relevant court as such it was not in the interest of the project to specify locations for cut, fill or stocking as it would have given rise to claims by the Contractor.

The reply was not correct because PHAF adopted NHA Specification, 1998 for execution of Infrastructure Development work at Kuri Road. The Design Consultants clarified that Bill of Quantities of area development works and roads were prepared exactly on the basis of NHA BOQ items and Specifications. The Consultants further clarified that as per NHA Specifications, practically the excavated /cut material of Item No. A-1 has following categories:

- (i) Category-1 Excavated material to be used for embankment
- (ii) Category-2 Excavated material which is surplus

According to Specifications, only surplus material was to be stocked at site and payable under Item A-1 of BOQ whereas, the Contractor was paid total quantity of excavation instead of admissible quantities after utilizing earth in the item A-2 and A-3 which resulted in an overpayment.

The matter was discussed in the DAC meeting held on 20<sup>th</sup> January, 2016 wherein the DAC directed to constitute a Committee comprising of members from Pak PWD, PHAF and NHA to examine the matter and submit report on the contentions of Audit and stance taken by PHAF in defence within seven (07) days.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.2)

#### **8.4.9 Overpayment due to unjustified payment of carriage/ transportation charges - Rs 13.93 million**

As per agreement / BOQ item A-1: Earth cutting (common soil) in specified area to required grade and leveling etc, the surplus material shall be stocked at the site as directed by the engineer @ Rs 7.00 per cft. Item A-2 of the BOQ provides structural filling in specified areas using earth available including transportation upto any lead and lift with compaction @ Rs 9.29 per cft. Another item A-3 with earth filling in parks and low lying areas and plots including transportation upto any lead and lift @ the Rs 4.98 per cft as directed by the Engineer, under head "Grading and Leveling".

Audit noted that management of Pakistan Housing Authority Foundation, Islamabad awarded infrastructure development work of Housing Scheme for Federal Government Officers at Kuri Road Zone-iv Islamabad to M/s Maaksons (Pvt) Ltd at agreement cost of Rs 579.77 million. The work was started on 22<sup>nd</sup> March 2012 to be completed in 18 months upto 21<sup>st</sup> November, 2013.

Audit observed that transportation charges were payable only under BOQ item A-1 (Earth cutting etc) while transportation charges have been included in all the three items of the work. The available earth

obtained from item A-1 for a quantity of 8,141,976 cft out of which 6,159,557 cft was utilized / filled in the designated / specified areas vide item No-A-2 structural filling and item No-A-3 earth filling in parks, low lying areas and plots. Whereas, the Consultant verified and paid full quantity vide item No-A-1 @ Rs 7.00 per cft for Rs 56.28 million stocked at site instead of surplus earth which comes to 1,982,419 cft. Payment of transportation charges for the earth utilized / filled in item A-2 and A-3 separately instead of item No-A-1 earth cutting @ Rs 2.29 (approximately) resulted in an overpayment of Rs 13.93 million.

Audit holds that overpayment resulted due to non-adherence to provision of BOQ (nomenclature) provision and lack of internal control system.

Audit pointed out the overpayment in November, 2015. The management replied that the amount re-claimable due to recovery of transportation charges does not apply to this Contract nor any provision in the Specifications of the instant Contract. There is no provision of such recoveries even in NHA's Schedule of Rates based on NHA's General Specifications 1998. Some departments specify transportation separately as per their Specifications/Schedule. Hence, there is no provision of such deductions within the provisions of this Contract.

The reply was not correct as the PHAF adopted NHA Specifications, 1998 for execution of Infrastructure Development works at Kuri Road. Nomenclature of the A-1 spelled out "earth cutting in specified areas to required grade and level for made up elevation including leveling in accordance with sections and grades" as per Roads Specification (NHA). The surplus material shall be stocked at site as directed the Engineer", only surplus material was to be stocked at site but the Contractor shown stocked all excavated material at site and then shown filled under Item A-2 and A-3. In this way double carriage was paid which resulted in an overpayment. This position has also been clarified by the Design Consultant vide their letter dated 20<sup>th</sup> August, 2013 that "According to Specifications, only surplus material is payable under items A-1".

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management of PHAF informed DAC that there is no provision of recovery of transportation charges. BOQ items A-1, A-2 & A-3 are separate payable items as determined by the Engineer of the project. Audit was of the opinion that PHAF adopted NHA specification, 1998 for execution of infrastructure development work, due to which double carriage was paid. Moreover, Design Consultant also endorsed view point of Audit through their letter dated 20<sup>th</sup> August, 2013 according to which, only surplus material is payable under item A-1. The DAC directed to constitute a Committee comprising of members from Pak PWD, PHAF and NHA to examine the matter and submit report on the contentions of Audit and stance taken by PHAF in defence within seven (07) days.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.1)

#### **8.4.10 Non-maintenance of record relating to revenue collection from the allottees by Management Services Wing PHAF and unauthentic expenditure - Rs 14.24 million**

General Financial Rules (GFR) Volume-I, emphasize that the expenditure be incurred with due regard to high standards of financial propriety. The funds should be spent for the purpose for which they are allocated and in accordance with relevant rules and regulations and should not exceed the budget allocated. The expenditure is not, prima facie, more than the occasion demands, and that very government servant exercises the same vigilance in respect of the expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of the expenditure of his own money.



Audit noted that PHA established Management Services Wing (MS Wing) to provide maintenance services to the allottees of PHA Flats. The main source of income was revenue collection from the allottees in lieu of the services provided to them. Therefore, all the expenditure relating to MS Wing was to be met from its own source. The MS Wing proved a failure and was abolished in May 2014.

Audit observed that management of MS Wing PHAF did not maintain the record of collections from allottees and expenditure incurred there-against. In the absence of detailed accounts record, total collection and expenditure there against cannot be ascertained. Audit further observed that MS Wing withdrew Rs 14.24 million from 1<sup>st</sup> July, 2012 to 17<sup>th</sup> December, 2014 from the Bank Account No.1650508085 operated in the Askari Bank. Audit further noted that withdrawal of public money and utilization of the withdrawal amount was not supported with proper receipts and vouching account.

Audit holds that the ineffective implementation of internal controls caused misappropriation of revenue.

Audit pointed out the loss in November 2015. The management replied that the services of the MS Wing employees have already been terminated due to illegal recruitment and corruption in revenue collection. The MS Wing employees were custodian of every record pertaining to their recruitment and deposits etc which they had not handed over as retaliation at the time of their termination. A separate inquiry regarding misplacement of record is underway in FIA. However, some of the record was taken into custody by NAB-Rawalpindi through seizure memo for ongoing investigation regarding recruitment and other matters of MS Wing. Therefore, in view of the above, since all the responsible officers are already terminated in December 2013 and no financial loss occurred to the PHAF exchequers.

The reply was not tenable. No original record regarding collection, deposit of receipt in bank account and expenditure there against was made available to Audit.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management of PHAF informed that the matter had already been taken up by the NAB. Moreover, an Inquiry regarding mismanagement in MS Wing was also underway in Ministry of Housing & Works by CF&AO (H&W) and FA (H&W). The DAC directed to intimate the findings of the Departmental Inquiry and NAB as and when completed.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.7)

#### **8.4.11 Overpayment on account of non-deduction of excavation component - Rs 13.70 million**

As per NHA Specification No. 108.4.2 (c), the cost of excavation is included in the cost of formation of embankment or filling and not to be paid separately under BOQ Item A-1.

Audit noted that the work "Infrastructure Development Works of Housing Scheme for FG Officers Residencia at Kuri Road, Zone-IV Islamabad" was awarded to M/s MAAKSONS (Pvt.) Ltd at agreement cost of Rs 579.76 million. The Contractor was paid for Rs 188.24 million upto 15<sup>th</sup> IPC upto September, 2015 including escalation and execution of Non-BOQ items. Audit further noted that the BOQ item R-8: formation of embankment from excavation in common material obtained from cut in grade and leveling at site including transportation upto any lead and lift was provided in the agreement for a quantity of 966,700 cft @ 9.29 per cft less rebate @ 1.25%.

Audit observed that the PHA management / Consultant got executed BOQ item "formation of embankment from the earth obtained

from excavation/cut in grading and leveling at site” but the quantity of excavation used in formation of embankment was not deducted from the quantity of formation of embankment. Non-deduction of the quantity resulted in an overpayment of Rs 13.70 million (1,982,419 x 7 (-) 1.25%) to the contractor.

Audit holds that overpayment resulted due to non-adherence to NHA specification and inadequate oversight mechanism for effective implementation of financial and internal controls.

Audit pointed out the overpayment in November 2015. The management replied that the items under road works are carried out as per Specification. Clause 1.2.8 (3<sup>rd</sup> Para) states, “Payment shall be made only for the payment items in the bill of quantities as applicable to this contract”. Pay items A-1 (excavation / cutting) falls under Area Development whereas, R-8 (formation of embankment) falls under roads thus having no relationship with respect to their individual payments. Moreover, the requirement of excavation requires the Area Development to be completed first before undertaking the road works as during the process of area development some changes are required with respect to the road network and site conditions which is subsequently adjusted.

The reply was not correct. NHA Specification No. 108.4.2 clearly states that the cost of excavation is included in the cost of formation of embankment or filling and not to be paid separately. The position has also been clarified by the Consultants vide their letter dated 19<sup>th</sup> July, 2013.

The matter was discussed in the DAC meeting held on 20<sup>th</sup> January, 2016 wherein the DAC directed to constitute a Committee comprising of members from Pak PWD, PHAF and NHA to examine the matter and submit report on the contentions of Audit and stance taken by PHAF in defence within seven (07) days.

The compliance to the DAC’s directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.5)

#### **8.4.12 Payment of price escalation in violation of PEC procedure and without provision in contract agreement - Rs 8.04 million**

As per Standard Procedure and Formula for Price Adjustment of Pakistan Engineering Council (PEC) describes that user of this document is not to change any provision hereof unless otherwise stated. No method, other than given in this document is acceptable to compute the price adjustments.

Parameters for determination of Weightages of Specified Items are as under: -

Each of the cost elements, having cost impact of five (05) percent or higher can be selected for adjustment. Cost elements of HSD and labour shall be included in the Price Adjustment formula irrespective of their percentage determined for a particular project, if these are applicable for that project.

In determining the Weightages, the following procedure shall be adopted:

- a) Base Date Price alone of an element based on market rate shall be considered excluding cost of construction/installation, overheads and profit.
- b) Engineer's Estimate shall be prepared for complete project.
- c) Appropriate Rate Analysis of the Engineer's Estimate shall be made to determine costs of the basic elements.
- d) For such elements having various types of a particular element, individual cost of such family of the element to be determined and added to work out the element cost, for example, in a particular project various types of steel such as

sheet steel, Grade-40 & Grade-60 steel are used. In such a case, respective base prices of all three types of steel are to be considered and added up to come out with the single steel cost component. Similar case may be for different types of cement used, etc.

- e) Each cost element determined as above, shall be divided by the total amount of Engineer's Estimate to determine various Weightages.
- f) It is clarified that while computing Price Adjustment, base and current prices of the representative elements have to be used in the same way as they are mentioned in the PEC bidding documents. For example Grade-40 half inch dia Steel is the representative cost element for all types of steel; similarly un-skilled labour is the representative cost element for all types of labour etc.

Similarly, weightage of fixed portion (non-adjustable portion of the estimated cost of the contract) shall be determined as under:

- i) First the Weightages of all the cost elements having value of 5 percent or more (HSD and labour to be included irrespective of their Weightages) to be added up to see whether the total is 65 percent or less. In that case the total is to be subtracted from one to determine the weightage of the fixed portion, "A"
- ii) In case total Weightages of the cost elements including HSD and labour exceeds 65 percent, the element(s) having lowest weightage (s) other than HSD and labour shall be excluded in considering the adjustable costs elements.
- iii) Fixed portion shall never be less than 35 percent and the adjustable portion shall never be more than 65 percent of the Engineer's Estimate.
- iv) Sum of fixed portion, "A" and Weightages a,b,c,d etc. of the adjustable portion shall always be one (01).

Further, Appendix-A to Tender special stipulation provides that the Contract Costs shall not be subject to price adjustment, except as specifically described in the Part-II Conditions of the Particular Application, Clauses 70.1 to 70.1.8. As per Clause 70.1, the Contract shall be on Item Rate basis and the Contractor shall be deemed to have allowed in his rates and prices for the risk of any rise or fall in the prices of materials, labour wages/remuneration, consumables, fuel and power etc.

Audit noted that the Pakistan Housing Authority-Foundation, Islamabad awarded the work “Infrastructure Development Works of Housing Scheme for FG Officers Residencia at Kuri Road, Zone-IV Islamabad” was awarded to M/s MAAKSONS (Pvt.) Ltd. at agreement cost of Rs 579.76 million with completion period of eighteen (18) months from the date of start of work with effect from 22<sup>nd</sup> March, 2012.

Audit observed that:

- i. Consultants engaged by the PHA provided fixed portion of the estimated cost at the minimum of 35% and variable portion of specified items at the maximum of 65% without observing the parameters as stated in the PEC formula. Computation of price adjustment based on PEC Standard Parameters & Formula was mandatory hence, deviation from the formula is violations of PEC documents which resulted in un-authentic / unjustified payment to contractor Rs 8.04 million upto 15<sup>th</sup> IPC.
- ii. The contractor did not quote base prices of the material specified in the Appendix-C to tender as was required at the time of tendering. As per minutes of the meeting of Board of Directors held on 7<sup>th</sup> May, 2015, the work remained suspended from 28<sup>th</sup> November, 2012 to September, 2014 and the contractor demanded price escalation. Later on, the Management of the Foundation allowed escalation to contractor in violation the contractual provisions without

considering the time over-run impact for suspended period resulted in an overpayment of Rs 8.04 million.

Audit pointed out the irregularity in November 2015. The management replied that the adjustable portion of 65% and non-adjustment portion of 35% as given in this Contract Document is within the permissible limits prescribed by the Pakistan Engineering Council (PEC). The weightages of various adjustable items / inputs were fixed and provided in the Bidding Documents issued to all the prospective Bidders, who quoted their rates keeping in view the weightages given in the Bidding Document. The management further replied that price escalation was allowed in line with the provisions in the agreement.

The reply was not correct because maximum variation portion of 65 % was paid without determination of each cost element divided by the total amount of Engineer's Estimate. Appropriate rate analysis of the Engineer's Estimate was also not made to determine costs of the basic elements. Moreover, a text after Clause -70.1 was added which provides that the contract shall be on item basis and the contractor shall be deemed to have allowed in his rates and in prices for the risk of any rise or fall in the prices of materials, labour wages/remuneration.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management of PHAF informed DAC that adjustable portion of 65% and non-adjustable portion of 35% as given in the contract document was within the permissible limits prescribed by the Pakistan Engineering Council (PEC). The Committee was not convinced and directed the Authority to re-calculate variable portion as per PEC bidding documents and get verified from Audit within 07 days. The DAC further directed the Authority to provide evidence in support of reply that price escalation was allowed in line with the provisions in the agreement.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 15,17)

#### **8.4.13 Non-recovery of penalty from the defaulting Design Consultants - Rs 5.40 million**

Article-8 Professional Liability provides that the Consultant is liable for the consequences of errors and omissions on his part or on the part of its employees to the extent and with the limitations for a period upto the defects liability period or such extended periods of the project. The total professional liability of the Consultant, under this Agreement, shall be limited due to proven faults, errors or omissions in the design and other professional duties performed by the Consultant in connection with this agreement which have bearing on the safety security and performance of the work. The Consultant may be required to make good losses or damages subject to the maximum of 10% of all fee paid to the Design Consultant.

Audit noted that the Design work of the project was awarded to M/s Progressive Consultants at agreement cost of Rs 54.00 million. The design consultants were required to perform the following services:

- Survey and investigation
- Feasibility, master plan and conceptual design
- Design development and tender documents
- Invitation of tenders and evaluation of bids
- Detail design and Construction drawings
- Top supervision

Audit observed that the Design Consultants were responsible of proven faults, errors and omissions in the design. Audit further observed during execution of the project the supervision Consultants found errors and omissions in the design due to faulty survey and drawings and calculated revised cost of Rs 648.79 million against original cost of



Rs 579.76 million which is Rs 69.02 million (11.90 %) more than the original cost. Hence, the Design Consultants were liable to make good the losses or damages subject to the maximum of 10% of the entire fee paid to the Design Consultant.

Audit holds that necessity for revision of quantities and cost there against aroused due to wrong calculations or defective/faulty drawing & design prepared by the design consultant which will ultimately result in time and cost overrun till completion of the project and burdened the beneficiaries.

Audit pointed out the non-recovery in November 2015. The management replied that the design consultant M/s Progressive has raised his fee invoice in 2013 for an amount of Rs 4.12 million, which has not been paid/processed due to issues raised over the design carried out by the said consultant. Moreover, M/s Progressive Consultants have been debarred for any future/upcoming project of PHA-Foundation.

The reply was not tenable because the Design Consultants have been found responsible of errors and omissions in the design. The losses or damages need to be made good from the payable amount of the Design Consultants.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management of PHAF informed that the design consultant had been debarred in any future project of the department. The DAC directed PHAF to take action against the Design Consultant under clauses of the agreement within seven (07) days.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.6)

#### **8.4.14 Non-recovery due to non-provision of employer facilities by the Contractor - Rs 3.00 million**

As per Clause-78.1 of the contract, the contractor shall construct, provide and maintain for each of Engineer's and Employer's Representatives site offices with stabilized access Road, on a location on site as approved by the employer. These facilities shall be furnished and equipped with adequate new and used furniture. Cost shall be deemed to have been included in the quoted rates and prices of other items of BOQ except that the cost of outstation calls made by the Engineer/Employer's Representative shall be reimbursement to the Contractor on the submission to and approval by the Engineer of the bills for the same. In addition to these, addendum No-1 to Contract following is added:

- Contractor shall provide two latest model 1000 CC vehicles with full maintenance, fueling and drivers. The vehicles shall remain the property of contractor at all times and will be returned after expiry of the maintenance period.

Audit noted that the Pakistan Housing Authority-Foundation, Islamabad awarded the work "Infrastructure Development Works of Housing Scheme for FG Officers Residencia at Kuri Road, Zone-IV Islamabad" was awarded to M/s MAAKSONS (Pvt.) Ltd. at agreement cost of Rs 579.76 million with completion period of eighteen months (18) from the date of start of work with effect from 22<sup>nd</sup> March, 2012.

Audit observed that the contractor did not provide the facilities to employer/engineer staff as required under agreed clauses of the agreement and Addendum No-1. The management neither took up the matter with the Contractor for provision of facilities nor any action for recovery of these facilities have been initiated by the PHA-Foundation. This resulted in non-recovery of Rs 3.00 million (approximately) from the Contractor.

Audit holds that recovery was not effected due to non-adherence to the provision of contracts clauses, weak financial and internal controls.

Audit pointed out the non-recovery in November 2015. The management replied that the Contractor has provided the following Facilities as per the provisions of the Contract.

- i. Adequately equipped Field Laboratory. The tests which cannot be performed at the field laboratory at site, the same are being performed from the outside laboratories at the expense of the Contractor.
- ii. Furnished and equipped Site Office including air-conditioned conference room with multimedia facility.
- iii. All the required electronic appliances including computers, printers etc.

The Contractor provided the vehicles at the start of the project in 2012 but this facility was withdrawn during the suspension period. The Employer and the Supervisory Consultants have already written several letters to the Contractor for the provision of vehicles. In case of non-compliance by the Contractor, necessary recoveries against non-provision of vehicles will be initiated as per provisions of the Contract.

The reply was not tenable because handing / taking over of the site facilities provided by the Contractor was not available on record. In absence of which, reply of the Foundation cannot be accepted. As regards, withdrawal of facility of vehicle and maintenance thereof, recovery of cost of vehicle and maintenance may be made after actual calculation of period.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management of PHAF informed DAC that the contractor had provided all facilities as per provision of the agreement except withdrawing of vehicles during the suspension period. The DAC directed PHAF to effect recovery from the contractor as per provisions of the agreement and get verified from Audit within seven (07) days.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.14)

#### **8.4.15 Non-recovery of cost of security fence - Rs 5.79 million**

Appendix-A to tender (Special Stipulations at S.No-25), provides that the Contractor shall be responsible to provide a suitable fence approved by the Employer, to properly separate and secure the site at his own expense. As per Clause-6.02, items against which no rate or price is entered by the Tenderer shall be deemed to be covered by other rates and prices in the tender, unit rates or prices.

Audit noted that the Pakistan Housing Authority-Foundation, Islamabad awarded the work "Infrastructure Development Works of Housing Scheme for FG Officers Residencia at Kuri Road, Zone-IV Islamabad" to M/s MAAKSONS (Pvt.) Ltd. at agreement cost of Rs 579.76 million with completion period of eighteen months (18) from the date of start of work with effect from 22<sup>nd</sup> March, 2012.

Audit observed that the Contractor did not provide the security fence as per special stipulations. Non-provision of security fence at site of work by the contractor against the provision of contract clauses resulted in non-recovery of cost of the security fence of Rs 5.79 million (579.769\*1%) @ 1% approximately of the contract cost of Rs 579.76 million.

Audit holds that non-provision of fence was due to non-adherence to the provision of special stipulation of the contract which reflects weak / poor internal control system, financial and contract management.

The matter was taken up with the management in November 2015. The management replied that Security Fence is stipulated to be provided at

the start of the Project, however, a complete fencing was not carried out due to various land disputes and most of landowners obtained stay order against their said pocket of land. Moreover, at this stage, the adequate boundary wall has been constructed and as such, the site is properly secured and protected. Hence, no need for Fence at this stage.

The Authority admitted non-provision of fence for which rates were inbuilt in the item rates.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management of PHAF informed DAC that complete fencing could not be carried out due to various land disputes and stay orders of Court. The DAC directed to effect recovery from the contractor of cost of fence which was not installed and get verified from Audit.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 16)

#### **8.4.16 Loss due to missing of vehicle - Rs 1.50 million**

According to Rule 26 of General Financial Rules (Volume-I), any loss of public money, departmental revenue or receipts, stamps, opium, stores or other property held by or on behalf of Government, caused by defalcation or otherwise, which is discovered in a treasury or other office or department, should be immediately reported by the officer concerned to his immediate official superior as well as to the Accountant General, even when such loss; has been made good by the party responsible for it. Such reports must be submitted as soon as a suspicion arises that there has been a loss; they must not be delayed while detailed enquiries are made. When the matter has been fully investigated a further and complete report should be submitted of the nature and extent of the loss, showing the errors or

neglect of rules by which such loss was rendered possible, and the prospects of effecting a recovery.

Audit noted that Pakistan Housing Authority Foundation (PHAF) is maintaining a transport pool for allocation, running and maintenance of the vehicles for pool and officers duty.

Audit observed that one vehicle (Toyota GLI Corolla, 2008 Model Registration No. GT-239) has been missing since 2011 but neither any departmental inquiry has been conducted nor FIR lodged with Police. This resulted in a loss of Rs 1.50 million.

Audit holds that the Authority sustained loss due to weak internal controls. The Authority failed to protect its assets due to poor monitoring system.

Audit pointed out the loss in November 2015. The management replied that the vehicle No. GT-239 is missing since 2011. An application was moved for the registration of FIR but the response is still awaited. Meanwhile, an inquiry regarding the missing vehicle is in process.

The reply of the management was not tenable. Neither FIR has so far been got registered with Police nor departmental inquiry was conducted for fixing the responsibility.

Audit holds that missing of the vehicle was due to negligence and inefficiency on part of the management of PHAF.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the DAC took serious view of the matter and directed to take action against the responsible of non-registration of FIR with Police and finalization of departmental inquiry since, 2011.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 10)

#### **8.4.17 Irregular appointments in PHAF and non-payment of salaries to the employees of MS Wing**

Board of Directors of Pakistan Housing Authority Foundation, Islamabad, approved creation of Management Services Wing (MS Wing) for maintenance services to the allottees of PHA flats in its 3<sup>rd</sup> meeting held on 18<sup>th</sup> May, 2012. Board of Directors approved Maintenance cell at PHA Head Quarter and a team at each eight completed and fully occupied projects (4 projects at Islamabad and 2 each at Lahore and Karachi) of 16 posts at HQ and 30 posts of different categories at fix salaries.

Audit noted that the main source of income was revenue collection from the allottees in lieu of the services provided to them. All expenditure relating to MS Wing was to be met from its own source.

Audit observed that:

- (a) Letters of appointment to 286 candidates were issued without observing recruitment rules and approval of the competent authority.
- (b) The employees were recruited in excess of approved establishment at higher rates without approval of the competent authority.
- (c) Employees were recruited for all 09 projects while only two projects were complete for providing maintenance services.
- (d) Record relating to collection of maintenance charges and disbursement of salaries to the employees was not maintained properly.
- (e) Salaries were paid to the employees through cash instead of through banks irregularly.

This resulted in irregular appointments in PHAF and non-payment of salaries to the employees of MS Wing.

Audit holds that posts for MS Wing were created without ascertaining proper need and observing approved criteria due to weak internal controls and weak monitoring system.

Audit pointed out the irregularity in November, 2015. The management replied that the MS Wing employees were among the other regular employees who had applied for regular jobs in PHA-F in 2011. But they were not selected for the regular posts in PHA-F. The recruitment in MS Wing was carried on lump sum salary with the approval of PHA Board of Directors. 286 employees were given offer of appointment in MS wing but only 158 employees joined the services. All 09 projects were completed at the time of inception of MS wing. But later, the allottees associations had obtained Stay Orders from the Courts and MS wing was restrained not to collect maintenance charges from 07 sites out of nine sites. Since all nine sites were complete in all respects at the time of recruitment of MS Wing and staff was recruited for all sites. The record related to collection of maintenance charges and disbursement of salaries was maintained by the staff of the MS Wing in accordance with the rules and it is evident from the bank statement that an amount of Rs 12.44 million from the June 2012 to December 2014 has been deposited in the bank. Initially three months' salary was paid in cash to the employees after due approval of the PHAF, because almost all the employees were recruited from the remote areas and they had no bank accounts. However, the rest of the salaries were disbursed through cross cheques.

Since MS Wing had started facing financial constraints right from its beginning due to the Stay Orders from the Courts, therefore the then management decided that salaries shall only be paid to those employees who are practically working on sites. It is evident from the record that after first two salaries, the rest of salaries were only paid to those employees who were working on sites. The salary drawn from bank was disbursed to the employees and proper receiving had also been taken by the Assistant Director Finance of MS Wing. Services of MS Wing



employees have already been terminated in 2013 and a case regarding MS Wing is already under investigation in NAB.

The reply was not acceptable. Original record relating to recruitment, collection, deposit and expenditure alongwith reconciled bank statement was not made available to Audit. Original record relating to collection of maintenance charges and payment of salaries was also missing.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management of PHAF informed DAC that the matter had already been taken up by the NAB. Moreover, an Inquiry regarding mismanagement in MS Wing was also underway in Ministry of Housing & Works by CF&AO (H&W) and FA (H&W). The DAC directed to intimate the findings of the Departmental Inquiry and NAB as and when completed.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.8)

#### **8.4.18 Issuance of fake NOCs to the allottees of PHA flats without depositing maintenance charges**

Board of Directors of Pakistan Housing Authority Foundation, Islamabad, approved creation of Management Services Wing (MS Wing) for maintenance services to the allottees of PHA flats in its 3<sup>rd</sup> meeting held on 18<sup>th</sup> May, 2012. Board of Directors approved Maintenance cell at PHA Head Quarter and a team at each eight completed and fully occupied projects (4 projects at Islamabad and 2 each at Lahore and Karachi) of 16 posts at HQ and 30 posts of different categories at fix salaries.

Audit noted that the main source of income was revenue collection from the allottees in lieu of the services provided to them. All expenditure relating to MS Wing was to be met from its own source.

Audit observed that:

- (a) The MS Wing of PHAF issued fake NOCs without showing receipt of maintenance charges and its deposit in the bank account of the MS Wing.
- (b) No proper record regarding receipt of revenue and deposit was maintained by the MS Wing.
- (c) The apartments were transferred on the fake NOCs without showing receipt of necessary charges from the transferors.

This resulted in issuance of fake NOCs and transfer of apartments without receipt of required charges of millions of rupees.

Audit holds that the ineffective implementation of internal controls caused misappropriation of revenue.

Audit pointed out the irregularity in November, 2015. The management replied that the MS Wing had only two source of revenue generation:

- i. Maintenance charges collected from allottees on site and
- ii. Receipt of outstanding maintenance charges at the time of transfer of flat through NOC.

It is evident from the record of NOCs issued by MS wing that since inception of MS wing in April 2012 till December 2014, it has issued 234 NOCs to the allottees of various sites and received money from them. If we compare it from the bank statement of the respective period, it is evident that 540 transaction of deposit in terms of cash /pay orders etc. were made. This clearly indicates that not a single NOC has been issued without receiving the maintenance charges. It is further to clarify that the

other receipts except 234 out of 540 are those which were deposited by the staff concerned of MS Wing collected at the site. Moreover, the details of collection are as follows:

- Total NOCs issued by MS Wing: 234
- Total deposit in MS wing account: 540
- Total revenue collected during this period Rs 12.48 million

NAB has seized the record as a consequence of ongoing investigation regarding establishment, recruitment and other allied matters of MS Wing. Therefore, in view of the above facts and till the finalization of inquiries being conducted at NAB and Ministry of Housing & Works, it is requested that the observations may be kept pending. However, after finalization of the inquiries report, the department will take the actions accordingly and the same reports will be submitted to Audit.

The reply was not tenable. Original record relating to collection and deposit of maintenance charges alongwith reconciled bank statement was not made available to Audit. Original record relating to issuance of NOCs was also missing.

The matter was discussed in DAC meeting held on 20<sup>th</sup> January, 2016 wherein the management of PHAF informed DAC that the matter had already been taken up by the NAB. Moreover, an Inquiry regarding mismanagement in MS Wing was also underway in Ministry of Housing & Works by CF&AO (H&W) and FA (H&W). The DAC directed to intimate the findings of the Departmental Inquiry and NAB as and when completed.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP.9)

## CHAPTER 9

### EVACUEE TRUST PROPERTY BOARD (MINISTRY OF RELIGIOUS AFFAIRS AND INTER- FAITH HARMONY)

#### 9.1 Introduction

Evacuee Trust Property Board (ETPB) is responsible for the management and disposal of evacuee trust property under the Evacuee Trust Properties (Management and Disposal) Act, 1975. The Chairman is the administrative and executive head of the Board. Secretary, Ministry of Religious Affairs and Inter-Faith Harmony (National Harmony Division) is the Principal Accounting Officer of the Board.

Major functions of the Board include:

- i. Maintenance of complete and authentic record of all evacuee trust properties.
- ii. Buying or selling any property, which may be considered beneficial for promoting the objects of any scheme.
- iii. Mortgage or lease any evacuee trust property.
- iv. Incurring expenditure on repair and maintenance of holy shrines.
- v. Maintenance of religious shrines and provision of facilities to the pilgrims.
- vi. Setting-up or making grant-in-aid to orphanage, widow houses, poor houses and educational, vocational, technical and health institutions.

The Directorate General Audit Works (Federal), Islamabad carries out audit of expenditure on works-related activities of the ETPB.

## 9.2 Comments on Budget and Accounts (Variance Analysis)

The table below shows the position of budget and expenditure of ETPB for the financial year 2014-15:

(Rs in million)

Type of Fund	Original Budget	Final Grant	Expenditure	Excess/ (Saving)	Excess/ (Saving) in %
Non-Development	191.04	191.04	173.43	(17.61)	(9.22)
Development	24.73	24.73	24.72	(0.01)	(0.04)
<b>Grand Total</b>	<b>215.77</b>	<b>215.77</b>	<b>198.15</b>	<b>(17.62)</b>	<b>(8.17)</b>

- As per Section- 3 (2) of ETPB Ordinance, 1984 the ETPB is corporate body. The corporate bodies are required to prepare annual financial statements indicating deficit/ surplus, fixed assets, moveable assets, receivables, payables total liabilities, accrued income/liabilities, appreciation/depreciation of assets. ETPB, Lahore did not prepare financial statements showing total assets (fixed/current), receivable income, total liabilities, deposits, refundable securities, long term/short term investments. In the absence of such accounts/financial statements the veracity of financial transactions made during 2014-15 cannot be ascertained.
- The expenditure position depicted above showed saving of 9.22% in non-development meaning thereby that funds were earmarked without realistic estimation and bonafide requirements which caused underutilization of funds.

## 9.3 Brief comments on the status of compliance with PAC's directives

The compliance position of PAC's directives on Audit Reports relating to the ETPB is as under:

<b>Year of Audit Report</b>	<b>Total Paras</b>	<b>Compliance made</b>	<b>Compliance awaited</b>	<b>Percentage of compliance</b>
97-98 (SAR)	32	24	08	75.00
2000-01	10	05	05	50.00
2004-05	02	-	02	-
2005-06	02	01	01	50.00
2010-11	12	8	4	66.67

Note: Audit Reports for the year 2011-12, 2012-13, 2013-14 and 2014-15 are yet to be discussed by the PAC.

## **9.4 AUDIT PARAS**

### **Non-Production of Record**

#### **9.4.1 Doubtful payment due to non-production of record of works - Rs 123.04 million**

According to Section 14 (2) of Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001, the officer in-charge of any office or department shall afford all facilities and provide record for audit inspection and comply with request for information in as complete a form as possible and with all reasonable expedition. Section 14(3) states that any person or authority hindering the auditorial functions of the Auditor General of Pakistan regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Discipline Rules, applicable to such person.

Annual audit of the accounts of Evacuee Trust Property Board (ETPB), Lahore was started from 10<sup>th</sup> August, 2015 and five (5) requisitions of record and two reminders (Requisition No.04 & 05) were issued on 6<sup>th</sup>, 11<sup>th</sup>, 12<sup>th</sup> and 17<sup>th</sup> August, 2015, but record of four (4) works involving payment of Rs 123.04 million was not produced to Audit for examination. This resulted in doubtful payment of Rs 123.04 million.

In the absence of above mentioned record, the authenticity of expenditure could not be ascertained. The non-production of record creates doubt on the actual existence of any such record at all, which makes the public money/assets vulnerable to misuse.

Audit pointed out the non-production of record/doubtful payment in August 2015. The Board replied that some files were under process for running payments and could not be retained for presentation before the audit for a detailed scrutiny during the period of audit. However, on finalization of next bills, the account of the said works would be got checked by Audit.

The reply was not tenable because during audit, the department explained that requisite record of work was with NAB. In view of the reply, Audit holds that the department did not produce the record deliberately.

The matter was discussed in DAC meeting held on 31<sup>st</sup> December, 2015 wherein the ETPB management explained that record could not be provided because the same was with NAB, etc. and now the record is ready and available for audit. The Committee directed the ETPB management to provide the list of cases with NAB and FIA regarding contracts to Audit within 15 days.

The compliance of DAC's directives was not made till the finalization of this Audit Report.

Audit recommends that DAC's directive be complied with besides production of record to Audit and fixing of responsibility for non-production of record.

(DP.6)

## **Irregularity and Non-Compliance**

### **9.4.2 Unjustified payment of balance work - Rs 9.73 million**

Rule-10 (i) of General Financial Rules (Vol-I) provides that every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

Audit noted that Evacuee Trust Property Board (ETPB), Lahore awarded a work "Balance work of construction of 34 shops at E.T Property Mouza Taraf Awal Mubarik, Nawab Pur Road, Multan" to M/s A.A Construction Co. vide acceptance letter No.1093 dated 8<sup>th</sup> February, 2013 with agreement amount of Rs 9.34 million. Audit further noted that balance work consisted of those items which related to other original



works and were left unexecuted by the contractors due to low rates. The Board called separate tender for those items and got executed the balance work at higher rates. Rs 9.73 million were paid vide 3<sup>rd</sup> & Final Bill.

Audit holds that the Board was required to execute the leftover work on risk and cost basis as the balance work cost the Board higher than the original value. This resulted in unjustified payment of balance work amounting to Rs 9.73 million.

Audit holds that the irregularity occurred due to weak contract management.

Audit pointed out the unjustified payment in August 2015. The Board replied that during progress of works, it was realized that overall cost of the project was going to increase beyond 15% due to revised plan, change of site, change of structure, increase in covered area, and increase in number of shops. Risk and cost clause was not invocable keeping in view the change in the time plan and scope of work. D.C.C approval would be solicited for revised PC-I against initial and subsequent scope of works.

The reply was not tenable because balance work consist of those items which were left unexecuted by the contractors pertaining to works i.e. construction of shops and construction of banquet halls at Mubarak Pura and executed as new work with higher rates.

The matter was also discussed in the DAC meeting held on 31<sup>st</sup> December, 2015. The Board explained that it was not a case of contractor's default to attract risk and cost provision. Additional civil work has added scope of work, meeting new award of contract upon closing of previous contract. The Committee directed that fact finding inquiry be conducted by the Secretary PMEIF and outcome of the same be produced to the Audit and Ministry.

The compliance to the DAC's directive was not made till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 12)

### **Internal Control Weaknesses**

#### **9.4.3 Unreliable payments due to missing vouchers - Rs 19.50 million**

As per Rules 76-77 of Treasury Rules, cash book is a basic and important document to record transaction on occurrence forthwith. The cash book shall be closed monthly and countersigned by the Head of Department with a certificate that the entries in the book are correct and cash balance in chest agrees with the closing balance shown in the cash book.

During audit of the accounts of ETPB, Lahore, it was observed that cash book was closed in March 2015 while in the months of April to June 2015, the cash book was not maintained/closed and left blank. Opening/closing cash balances were not recorded. Cancelled cheques were incorrectly shown in cash book. Audit further observed that the cash book was never signed by the Secretary Board or any other responsible officer designated on his behalf for this purpose. Therefore, correctness certificate also remained unrecorded. This resulted in unreliable payments amounting to Rs 19.50 million.

Audit holds that the irregularity occurred due to weak financial and administrative controls.

Audit pointed out the unreliable payment in August 2015. The Board replied that shortcomings in the cash book had been rectified. However, forty-eight (48) vouchers amounting to Rs 19.50 million were missing and the matter was being inquired.

The matter was discussed in the DAC meeting held on 31<sup>st</sup> December, 2015 wherein on the basis of verification of record and rectification made by the management, the Committee reduced the para from Rs 1,208.28 million to Rs 19.50 million, the value of missing vouchers and directed the ETPB management to complete the inquiry within one month.

The compliance to the DAC's directive was not conveyed till the finalization of this Audit Report.

Audit recommends implementation of DAC's directives at the earliest.

(DP. 1)

#### **9.4.4 Unjustified payment of Rs 15.50 million**

Rule-10 (i) of General Financial Rules provides that, every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

Audit noted that the ETPB, Lahore awarded a work "Development of E.T property on plot No.499 located at sector "XX" phase-3, Defence Housing Authority (DHA), Lahore to M/s M.S. Associates on 15<sup>th</sup> May, 2009 with completion period of six (6) months. Audit observed the following:

- i. Work awarded to the contractor on 15<sup>th</sup> May, 2009 and was completed on 28<sup>th</sup> September, 2012 with 36 months delay.
- ii. Payment of Rs 15.50 million was made against administrative approval of Rs 13.67 million, T.S estimate Rs 12.72 million and agreement amount of Rs 13.60 million i.e. 22.19 % and 13.95 % above the T.S estimate and agreement.
- iii. PEC registration of the contractor was not available in office record.

- iv. According to PC-1 assessment of rent, the E.T.P Board bearing loss of Rs. 2.31 million due to extra ordinary delay in completion.
- v. Above property rented out in August 2012, the tenant of said property forwarded a written complaint to the Administrator (E.Z) of E.T.P Lahore dated 30<sup>th</sup> August, 2012 in which explained that number of pending works to be completed and low standard sanitary items were to be replaced whereas very higher rates paid to the contractor for providing and fixing of imported sanitary items and accessories for bath rooms.

This resulted in unjustified payment of Rs 15.50 million.

Audit pointed out unjustified payment in August 2015. The department replied that:

- i. Due to extra scope of work, time extension was granted upto 28<sup>th</sup> September, 2012 and the work was completed within the extended time period.
- ii. The contractor was paid under the contract according to Measurement Books and enhancement in cost was approved by the competent authority.
- iii. The covered area measuring 4596 Sft was approved in the rough cost estimate which was submitted to DHA for approval of submission drawings, but as per requirements of DHA the covered area was increased to 5014 Sft.
- iv. The property was openly auctioned by the property branch and highest bidder was allotted the property. Further the subject building was rented out in August 2012, whereas the tenant who stayed in the property till January 2014, no complaint was received from the tenant. The next tenant complained that there were some pending works to be completed. In actual, the second tenant was trying to deceive the ETP Board for obtaining some fiduciary compensation

wrongly and submitted a bill that was totally bogus as verified on physical grounds by the Assistant Engineer. The complaints originate with the purpose to entangle E.T.P Board in litigation. The site was allowed to be occupied on “As is where basis”. In real, the total work was completed by the contractor as per contract agreement. Completion certificate was also handed over to the Administrator (E.Z), Deputy Administrator (II).

The reply is not acceptable because:

- i. Completion period was six months but work was completed with 36 months delay. Department did not explain the solid reasons for extra ordinary delay.
- ii. Revised admn approval, T.S estimate and agreement alongwith revised drawing/ design was not produced.
- iii. PEC registration not produced.
- iv. Building was rented out in August 2012 and the tenant of the house forwarded the complaint in same month dated 30<sup>th</sup> August, 2012 regarding pending/defective and substandard work.

The matter was also discussed in the DAC meeting held on 31<sup>st</sup> December, 2015 wherein the Committee directed the ETPB management to obtain completion certificate from DHA, investigate the matter and constitute a committee to see in totality that such instance should not recur in future regarding completion of the building and accordingly decision of the Board be communicated to Audit and Ministry within one month but no progress was reported till finalization of this Audit Report.

Audit recommends implementation of DAC’s directives at the earliest.

(Para 19 of AIR)

## **CHAPTER 10**

### **FRONTIER CORPS**

#### **(MINISTRY OF INTERIOR)**

#### **10.1 Introduction**

The Frontier Corps (FC) is a federal paramilitary force. The FC stationed in the Khyber Pakhtunkhwa at Peshawar and in Balochistan at Quetta is known as Frontier Corps Khyber Pakhtunkhwa and Frontier Corps Balochistan, respectively. Both distinct provincial groups report to respective Inspector General. The Secretary, Ministry of Interior is the Principal Accounting Officer.

With a total manpower of approximately 80,000 personnel, the task of both forces is to help in maintenance of law and order situation in provinces. Border patrolling and anti-smuggling operations are also delegated to the Frontier Corps.

#### **10.2 Comments on Budget and Accounts (Variance Analysis)**

According to paragraph 1.02 of Pakistan Public Works Department (Pak. PWD) Code, all original works, ordinary works and special repairs financed by the Federal Government shall be executed through Pak. PWD. Furthermore, item 9 (41) of Annexure to the System of Financial Control and Budgeting circulated by the Finance Division, Islamabad vide O.M No. F.3(2)Exp.III/2006 dated 13<sup>th</sup> September, 2006 provides that Ministries/Divisions have full powers regarding approved development schemes, subject to release of funds with the prior approval of Financial Advisor as required under Para 13(vii) of the said O.M. The System of Financial Control and Budgeting does not delegate any powers to Heads of the Departments in respect of civil works. However, in case of FC, the development funds were released directly and works were approved and executed through contractors by the FC as executing agency instead of Pak. PWD.

### FC (Balochistan), Quetta

The table below shows the position of budget and expenditure Figures for the Financial Year 2014-15 of the FC Balochistan Quetta:

(Rs in million)

Type of Funds	Allocation	Actual Expenditure	Excess/ (Saving)	Excess/ (Saving) in %
Non-Development	115.00	115.00	-	-
Development	373.36	373.36	-	-
<b>Grand Total</b>	<b>488.36</b>	<b>488.36</b>	-	-

The total budget allocation for the year 2014-15 in non-development and development grants was Rs 488.36 million against which an expenditure of Rs 488.36 million was incurred.

### FC (Khyber Pakhtunkhwa), Peshawar

The table below shows the position of budget and expenditure Figures for the Financial Year 2014-15 of the FC (Khyber Pakhtunkhwa), Peshawar:

(Rs in million)

Types of Funds	Allocation	Actual Expenditure	Excess/ (Saving)	Excess/ (Saving) in %
Non-Development	135.00	135.00	-	-
Development	308.08	308.08	-	-
<b>Grand Total</b>	<b>443.08</b>	<b>443.08</b>	-	-

The total budget allocation for the year 2014-15 in non-development and development grants was Rs 443.08 million against which an expenditure of Rs 443.08 million was incurred.

### **10.3 Brief comments on the status of compliance with PAC's directives**

Compliance position of PAC's directives on Audit Reports relating to FC is as under:

<b>Year</b>	<b>Total Paras</b>	<b>No. of Paras Discussed</b>	<b>Compliance made</b>	<b>Compl awaited</b>	<b>Percentage of compliance</b>
1990-91	01	01	01	-	100.00
1996-97	01	01	01	-	100.00
2009-10	02	02	02	-	100.00

Note: Audit Reports for 2010-11, 2011-12, 2012-13, 2013-14 and 2014-15 have not been discussed by PAC till the finalization of this Audit Report.



## **10.4 AUDIT PARAS**

### **Irregularity and Non-Compliance**

#### **10.4.1 Non-recording of detailed measurements of work done in measurement books - Rs 348.03 million**

Para 313 of CPWA Code provides that in a lump-sum contract the contractor agrees to execute a complete work with all its contingencies in accordance with the drawings and specification for a fixed sum. Para 208, 209 of CPWA code provides that payments for all work done and for all supplies are made on the basis of measurements recorded in the Measurement Books. All measurements should be neatly taken down in a Measurement Book issued for the purpose and nowhere else. As all payments of work are based on the quantities recorded in the Measurement Book.

According to Para 11(a) of Accounting Procedure approved by the Ministry of Interior vide letter dated 18<sup>th</sup> July, 1994, on completion of work measurement of the work will be done and recorded in the proper relevant papers after inspection by SO-II (Works) or by a qualified officer so authorized by him. SO (II) Works or an officer of equal status and qualification will also certify the utilization of material for the work concerned as per engineering formula.

**10.4.1.1** Audit noted that GSO-I, Frontier Corps, Khyber Pakhtunkhwa invited ten (10) tenders for various building works for an amount of Rs 1,606.87 million in the year 2014-15 and an amount of Rs 308.08 million was paid to various contractors on account of work done of these works.

Audit further noticed that the authorities used Form CPWA-26, which is meant for advance payments, secured advance and payments for measured works. As per rules, item-wise detailed measurement was required to be made but detailed measurements of work done were not recorded in the Measurement Books.

Non-adherence to the rules caused non-recording of detailed measurements of work done for Rs 308.08 million in Measurement Books which stood irregular.

Audit pointed out non-recording of detailed measurement in October 2015. The department did not reply.

The matter was discussed in DAC meeting held on 5<sup>th</sup> January, 2016 wherein the Department explained that project cost was based on covered area/per square feet rate and bill was being prepared on form CPWA-26 as per requirement of AGPR. Therefore, Pak PWD Code does not apply in this case. DAC did not accept the departmental stance as recording of detailed measurement of work done in MB (Form 23) cannot be dispensed with by the executing agency and directed the Department to produce Measurement Books to Audit within a week for verification. Compliance to the DAC's directive was not made till finalization of this Audit Report.

(DP. 9)

**10.4.1.2** Audit noted that Inspector General Frontier Corps, Balochistan Quetta made payment of Rs 39.95 million for purchase of material during the financial year 2014-15 for execution of works at FC Headquarters and Units. But, on completion of works, the detailed measurements were not recorded in the Measurement Book, as required under the approved procedure, to justify the utilization of material purchased and issued for works. This resulted into non-recording of detailed measurement of works amounting to Rs 39.95 million.

Audit observed that in absence of detailed measurement and abstract of cost the payment made cannot be termed as regular and whole the expenditure becomes irregular/unauthentic. This state of affairs indicated that contractor submitted IPCs without authentic measurements/work done at site and chances of unjustified payment/payment without work done cannot be ruled out.

Audit pointed out non-recording of detail measurement in November 2015. The department replied that the detailed measurements had been recorded in measurement books which would be shown during next audit.

The reply was not tenable because mandatory requirement of recording detailed measurements was not fulfilled before making payments.

The matter was discussed in DAC meeting held on 5<sup>th</sup> January, 2016 wherein the Committee directed the Department to get the Measurement Books verified from Audit. Compliance to the DAC's directive was not made till finalization of this Audit Report.

Audit recommends early implementation of DAC's directive.

(DP. 15)

#### **10.4.2 Award of work without detailed estimate and technical sanctioned estimate - Rs 2,124.72 million**

Para 51 CPWD Code provides that for each individual work, a properly detailed estimate must be prepared for the sanction of competent authority; this sanction is known as the technical sanction to the estimate and must be obtained before the construction of the work is commenced. Such sanction will be accorded by the officer authorized to do so. In the case of an original work, the countersignature of the head of the department or of such other officer, as may have been empowered, should be obtained to the plans and estimates before technical sanction. If, subsequent to the grant of technical sanction, material structural alterations are contemplated, the orders of the original sanctioning authority should be obtained, even though no additional expenditure may be involved by the alterations.

**10.4.2.1** GSO-I, Frontier Corps, Khyber Pakhtunkhwa prepared ten (10) PC-I's for an amount of Rs 1,606.08 million and Rs 135 million for various building works and repair/maintenance works. These PC-Is were

approved by the competent forum. Therefore, after obtaining the Admn Approval detailed estimates were required to be sanctioned by the competent authority namely technical sanctions.

Audit observed that no such detailed estimates and technical sanctions estimates were prepared/approved by the competent authority. It is pertinent to mention here that the FC authorities have not adopted any schedule of rates i.e. Pak PWD or MES. In absence of which accuracy of the estimates and structural soundness of the proposal cannot be adjudged. Quotations from three contractors were obtained and BOQ was prepared on per square feet basis. Even the analysis of per sq. feet was not made available to Audit.

Non-adherence to the rules/codes resulted into irregular award of works amounting to Rs 1,741.08 million.

Audit pointed out the irregular award of work without detailed estimate and technical sanctioned estimate in October 2015. The department did not reply.

The matter was discussed in DAC meeting held on 5<sup>th</sup> January, 2016 wherein the Department explained that all minor works were technically vetted. DAC directed the Department to produce following documents to Audit for verification:

- i. Detailed estimates
- ii. Technical sanction
- iii. Delegation of powers/notified competent authority for technical sanction of estimates.

(DP.11)

**10.4.2.2** Audit noted that Inspector General Frontier Corps, Balochistan Quetta awarded various works for an amount of Rs 383.64 million for repair/ maintenance and new construction during 2014-15. Audit observed that detailed estimate of each work containing calculation of quantities, rates and amount of each item were not prepared and got technically sanctioned from the competent authority. In response to advertisement

dated 18<sup>th</sup> July, 2014, the contractors quoted lump sum price per square foot for each work on their letter head without any breakup of quantities and rates. Audit further observed that payments to the contractors were made on the basis of rates given in CSR-1998 Balochistan plus premium @ 100% to 110% above for Civil Works and 200% to 210% above for Steel Works.

Audit holds that calling of tenders and award of works without preparation and technical sanction to estimates was irregular. This resulted in irregular award of work for Rs 383.64 million.

Audit pointed out the irregularity in November 2015. The department replied that detailed estimates/Bill of Quantities and specifications of all PSDP projects were forwarded to Ministry of Interior Islamabad for obtaining technical sanction of the projects. Ministry of Interior has forwarded the detailed estimates to Planning, Development and Reforms (PD&R) Division for obtaining the technical sanction. PD&R Division viewing all these documents approves all these projects in the shape of administrative approval. In future copy of technical sanction will be obtained from authority concerned. Technical sanction of Minor/Repair and maintenance works already obtained from authority concerned on the prescribed proforma.

The matter was discussed in DAC meeting held on 5<sup>th</sup> January, 2016 wherein the Department explained that schemes were approved by Departmental Development Working Party (DDWP). Audit contended that approval of DDWP is a form of Admn Approval and detailed estimates were required to be prepared and technically sanctioned by the executing department. DAC directed the Department to produce following documents to Audit for verification:

- i. Detailed estimates
- ii. Technical sanction

The compliance to the DAC's directive was not made till finalization of this Audit Report.

Audit recommends early implementation of DAC's directive.

(DP.14)

## **Internal Control Weaknesses**

### **10.4.3 Non-confirmation of deposit of GST - Rs 4.25 million**

According to BOQ/Agreement, item No.05&07, the contractor was required to provide and install M.S Blind Pipe and Submersible pump of approved make.

Audit noted that Inspector General Frontier Corps, Balochistan Quetta made a payment of Rs 24.98 million on account of supply and installation of M.S Pipe and Pumps. Audit observed that documentary evidence i.e sales tax invoices or any other valid documents to prove that the importer/exporter/manufacture, from whom the goods were procured, deposited the sales tax was not available on the record. In absence of the same supply of equipment from approved manufacturer and deposit of the GST cannot be authenticated. This resulted in non-confirmation of deposit of GST for Rs 4.25 million.

Audit pointed out the non-conformation of deposit of GST in November 2015. The Department replied that that contract for construction work of the project "**Installation of 10 x tube wells**" was awarded to contractor on lump sum cost basis. Payment was made to the contractor as per work done according to contract agreement and component of tube wells. However, neither the contractor claimed GST and nor drawn from Government.

The matter was also discussed in the DAC meeting held on 5<sup>th</sup> January, 2016, wherein the Department explained that payment was made to the contractor as per work done according to the component of tube well. The contractor neither claimed GST nor drew from government. DAC directed the Department to obtain confirmation from the contractor that material for tube well including pump was procured from GST

registered vendor and GST was deposited in treasury. The compliance to the DAC's directive was not made till the finalization of this Audit Report.

Audit recommends early implementation of DAC's directive.

(DP.22)

## **CHAPTER 11**

### **PAKISTAN RANGERS (MINISTRY OF INTERIOR)**

#### **11.1 Introduction**

Pakistan Rangers which came into existence at the time of creation of Pakistan is entrusted with the responsibility of safeguarding the borders of the country. The organization was federalized under the Ministry of Defence in 1971. Presently, it is under the administrative control of Ministry of Interior. Pakistan Rangers perform its functions in Sindh and Punjab provinces and is headed by a Director General in each province.

The major functions of Pakistan Rangers include:

- Protection of persons and their property in border areas,
- Apprehending persons unlawfully entering and leaving territory of Pakistan,
- Organization of village defence in the border areas,
- Collection of intelligence in the border areas,
- Coordination with agencies in the prevention and detection of smuggling, and
- Assistance in maintenance of law and order situation when required.

The Directorate General Audit Works (Federal), Islamabad conducts audit of civil works executed by Pakistan Rangers.

#### **11.2 Comments on Budget & Accounts (Variance Analysis)**

Para 1.02 of Pakistan Public Works Department (Pak. PWD) Code provides that all original works, ordinary works and special repairs shall be executed through Pak. PWD. Furthermore, item 9 (41) of Annexure to the System of Financial Control and Budgeting circulated by the Finance



Division, Islamabad vide O.M No. F.3 (2) Exp.III/2006 dated 13<sup>th</sup> September, 2006 provides that Ministries/Divisions have full powers regarding approved development schemes, subject to release of funds with the prior approval of Financial Advisor as required under Para 13(vii) of the said O.M. The System of Financial Control and Budgeting does not delegate any powers to heads of the departments in respect of civil works. However, in case of Pakistan Rangers, the development funds were released directly and works were approved and executed on self-help basis and through contractors by the Pakistan Rangers as executing agency instead of Pak. PWD.

Variance analysis of budget allocation and actual expenditure for the Financial Year 2012-13 is as under:

**Pakistan Rangers (Sindh)**

**(Rs in million)**

Description	Allocation	Actual Expenditure	Excess/ (Saving)	Excess/ (Saving) in %
<b>Non-Development</b>	58.00	58.00	-	-
<b>Development</b>	125.00	125.00	-	-
<b>Grand Total</b>	<b>183.00</b>	<b>183.00</b>	-	-

The total budget allocation for the year 2014-15 in non-development and development grants was Rs 183.00 million against which an expenditure of Rs 183.00 million was incurred. There was no variance during the year.

**Pakistan Rangers (Punjab)**

**(Rs in million)**

Description	Allocation	Actual Expenditure	Excess/ (Saving)	Excess/ (Saving) in %
<b>Non-Development</b>	10.00	10.00	-	-
<b>Development</b>	254.09	254.09	-	-
<b>Grand Total</b>	<b>264.09</b>	<b>264.09</b>	-	-

The total budget allocation for the year 2014-15 in non-development and development grants was Rs 264.09 million against which an expenditure of Rs 264.09 million was incurred. There was no variance during the year.

### **11.3 Brief comments on the status of compliance with PAC's directives**

Compliance position of PAC's directives on Audit Reports relating to Pakistan Rangers is as under:

<b>Year</b>	<b>Total Paras</b>	<b>No. of Paras Discussed</b>	<b>Compliance made</b>	<b>Compliance awaited</b>	<b>Percentage of compliance</b>
2007-08	02	02	02	-	100.00
2008-09	07	07	05	02	71.43
2009-10	04	04	-	04	-

Note: Audit Reports for 2010-11, 2011-12, 2012-13, 2013-14 and 2014-15 have not been discussed by PAC till the finalization of this Audit Report.

## **11.4 AUDIT PARAS**

### **Irregularity and Non-Compliance**

#### **11.4.1 Irregular execution of works by the Department - Rs 163.76 million**

According to paragraph 1.02 of Pak. PWD Code, all Government financed original works, ordinary and special repairs shall be executed through the agency of Pakistan Public Works Department except as provided hereunder:

- i. Works pertaining to the Light Houses, Mints, Archaeology and Salt Department.
- ii. Minor works costing up to Rs 0.10 million
- iii. All special repair and original works in foreign countries costing Rs 0.10 million under the affairs may be undertaken without reference to Pak. PWD.

A scrutiny of record of Pakistan Rangers (Punjab), Lahore has revealed that various PSDP projects are being executed by Pakistan Rangers (Punjab), either by engaging labour/procuring material departmentally or through award of works to the contractors instead of execution through the Pakistan Public Works Department as stipulated in CPWA Code. This resulted into irregular execution of works for Rs 163.76 million.

Audit observed that PSDP Projects should be executed through Pak PWD as stipulated in the PPWD Code. Audit holds that execution of works by engaging private contractors instead of Pak PWD resulted in irregular execution of works valuing Rs 163.76 million.

Audit pointed out the irregularity in July 2015. It was replied that department is responsible to follow the instructions of Ministry of Interior. In the light of approved PC-I executing agency is Works Branch Pakistan

Rangers (Punjab). Furthermore, Pakistan Rangers (Punjab) has a development setup of Works Branch supervised by Gazetted Professional Engineer Officer as Project Director deputed from Army Engineer Corps for execution of development projects and routine repair/maintenance works. As per codal requirements, all Federally Financed original works ordinary and special repairs be executed through Pak PWD.

The reply of the department was not tenable, because according to rule ibid Pak PWD is executing agency for execution of all works financed through budgetary grant.

The matter was also discussed in the DAC meeting held on 5<sup>th</sup> January, 2016 wherein Department explained that in PC-I, Works Branch, Pakistan Rangers (Punjab) was indicated as executing agency which was approved by the competent forum. The Works Branch Pakistan Rangers is supervised by Professional Engineer from Army Engineer Corps for execution of development projects. Audit contended that PC-I cannot override the relevant rules/codal provisions such as Rules of Business and Pak. PWD Code. Specific approval/exemption from competent forum was, therefore, required which was not obtained. DAC directed the Department to initiate a case for exemption/revision of relevant rules and condonation of irregularity. Interior Division will process the case for approval of the competent authority. The compliance to the DAC's directive was not conveyed to Audit till the finalization of this Audit Report.

Audit recommends early implementation of DAC's directive.

(DP.01)

## **CHAPTER 12**

### **HIGHER EDUCATION COMMISSION**

#### **(MINISTRY OF FEDERAL EDUCATION AND PROFESSIONAL TRAININGS)**

##### **12.1 Introduction**

Higher Education Commission (HEC), formerly University Grants Commission, was established through Higher Education Commission Ordinance 2002, for improvement and promotion of higher education, research and development. The Commission is a corporate body having perpetual succession and a common seal with power, subject to the provisions of the Ordinance, to acquire, hold and dispose of property, both moveable and immovable. The Headquarters of the Commission are located at Islamabad. The Executive Director, HEC is the Principal Accounting Officer.

The Commission, for the evaluation, improvement and promotion of higher education, research and development, may:

- i. Formulate policies, guiding principles and priorities for higher education institutions to promote socio-economic development of the country.
- ii. Review and examine the financial requirements of Public Sector Institutions and provide funds to these institutions on the basis of annual recurring needs as well as development projects and research, based on specific proposals and performance.
- iii. Approve funds for the Public Sector Institutions ensuring that a significant proportion of the resources are allocated for promoting research, establishing libraries and executing projects within the ceiling specified for Departmental

Development Working Party (DDWP) and Executive Committee of National Economic Council (ECNEC).

Directorate General Audit Works (Federal) is responsible for audit of infrastructure development (PSDP) expenditure of federally chartered universities/institutions under Higher Education Commission.

## 12.2 Comments on Budget and Accounts (Variance Analysis)

Table below shows the position of budget allocation and actual expenditure relating to federally chartered universities/institutions for the financial year 2014-15:

(Rs in million)

Type of Funds	Allocation	Actual Release	Actual Expenditure	Excess/ (Saving)	Excess/ (Saving) in %age
Development Projects	2,840.30	2,762.30	1,437.63	(1,324.67)	(47.95)

There was a saving of 47.95 % in the development budget, which indicates that the project authorities of universities/institutions could not achieve the set development targets during the financial year.

## 12.3 Brief comments on the status of compliance with PAC's directives

Audit of the development infrastructure projects of Higher Education Commission was conducted for the first time by the Directorate General of Audit Works (Federal) during 2011-12 (Phase-II of Audit Plan 2011-12). Results of audit during 2011-12 and 2012-13 were reported through Audit Report for the year 2012-13. This office has produced three Audit Reports so far for the year 2012-13, 2013-14 and 2014-15 which are yet to be discussed by the PAC.

## **12.4 AUDIT PARAS**

### **Irregularity and Non-Compliance**

#### **12.4.1 Excess expenditure on civil works beyond the PC-I - Rs 51.75 million**

Para 11(II)(15) & (29) of Guidelines for Project Management, approved by Planning Commission of Pakistan, provides that “at the time of award of contract, if it is found that cost of the project would exceed the approval limits by 15% the project should be revised and got approved from the competent forum before implementation.” Further, no expenditure in excess of 15% of approved cost can be incurred before revising the project.

Audit noted that the PC-I of the project “Strengthening of Departments (Computer Science, Physics, Business Administration & Law) was approved for Rs 426.02 million that included cost of Rs 163.70 million on account of civil works (Academic Block, Admn Block and external development).

Audit observed that the Federal Urdu University of Arts, Science and Technology incurred an expenditure of Rs 215.45 million upto June 2015, on account of the Civil Works (Construction of Admin and Academic Blocks) against the approved PC-I component cost of Rs 163.70 million. This resulted in excess expenditure of Rs 51.75 million that constituted 31.61% of approved original cost of civil works component. It is worth mentioning here that the expenditure included a sum of Rs 20.99 million on account of extra items and Rs 6.59 million on excess quantities of BOQ items without approval of the competent forum.

Audit holds that excess expenditure was due to weak internal/financial controls.

Audit pointed out the irregularity in August 2015. The management replied that Revised PC-I had been submitted to HEC.

The matter was discussed in DAC meeting held on 4<sup>th</sup> February, 2016. Vice Chancellor, FUUAST explained that draft Revised PC-I had been submitted to HEC. Director (P&D), HEC informed the Committee that draft Revised PC-I was received in HEC in 2014 but due to management issues in the FUUAST, the required supporting documents were not made available for review of revised PC-I before submission to competent forum. The process of revision of PC-I is still on hold.

Audit inquired about the effect of excess expenditure against civil works on the other components of the project included in the PC-I. The Vice Chancellor informed the Committee that certain project documents were missing and the project affairs were being investigated by FIA. However, Academic and Administration Blocks were complete. As regards the deviations from approved provisions of PC-I/BOQ, VC FUUAST explained that record is being scrutinized; discrepancy would be rectified and excess paid amount would be recovered from contractor.

The Committee directed FUUAST to submit revised reply explaining all details of the project and FIA case with its current status and events in chronological order within a week to HEC and Audit.

The Committee, keeping in view the serious issues of governance, further directed that a Fact Finding Inquiry be conducted by HEC for fixing of responsibility and report be submitted within three months. A copy of orders of inquiry containing composition of inquiry committee and ToRs shall be provided to Audit by HEC.

Audit recommends that DAC's directive be complied with and action be taken against persons responsible.

(DP.16, 24)



**12.4.2 Irregular award of consultancy contracts for Rs 11.05 million to second lowest resulted in excess expenditure - Rs 0.90 million**

Rule 36-b(viii&ix) of Public Procurements Rules, 2004 provides that after the evaluation and approval of the technical proposal the procuring agency, shall at a time within the bid validity period, publicly open the financial proposals of the technically accepted bids only. Rule-38 provides that the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the contract, within the original or extended period of bid validity. Further Rule-40 provides that there shall be no negotiations with the bidder having submitted the lowest evaluated bid or with any other bidder.

Rule 12(2) of Public Procurements Rules 2004 provides that all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

Audit noted that the Project Director Federal Urdu University Karachi floated tender in press for pre-qualification of consultants on 22<sup>nd</sup> September 2005. During evaluation process five firms were technically qualified and ranked 1-5 as:

1. M/s ECIL
2. M/s Naqvi & Siddiqui Associates
3. M/s Shahzad Associates
4. M/s Atif Nazar Associates
5. M/s Interdesign

Audit observed that:

- i. Instead of opening of financial offers of all the qualified firms, the management opened the financial proposals of only top three firms in violation of PPRA.
- ii. M/s Shahzad Associates stood first lowest with the bid of 3% of construction cost and M/s ECIL quoted 4.70% of construction cost. The management did not accept the first lowest bid of M/s Shahzad Associates and negotiated with M/s ECIL and consultancy work was awarded for Rs 5.70 million to them @ 3.5% of construction cost, involving excess of Rs 0.90 million due to irregular award of consultancy services at higher rates.
- iii. M/s ECIL did not perform satisfactorily and the management terminated services of the firm. In the year 2012, the management of the university intended to execute the construction of Academic Block and M/s Shahzad Associates was contacted on the basis of tendering of 2005 and consultancy services was awarded @ 3% of construction cost. This resulted in irregular award of consultancy services without open tender for Rs 5.35 million.

Audit holds that the irregularity occurred due to non-adherence to the rules by the management.

Audit pointed out the irregularity in August 2015. The management replied that the then Vice Chancellor Dr. Iqbal Mohsin awarded the consultancy contract. At the time M/s ECIL was well renowned/skillful consultant as compared to M/s Shahzad Associates. Building Committee and Vice Chancellor approved the award.

The reply was not tenable as Public Procurement Rules were violated.

The matter was discussed in DAC meeting held on 4<sup>th</sup> February, 2016. The VC FUUAST explained that the then Vice Chancellor awarded

the consultancy contract to the second lowest i.e. M/s ECIL being well renowned/skillful consultant as compared to M/s Shahzad Associate Building Committee. The Committee did not accept the viewpoint and directed to conduct inquiry at HEC level for fixing of responsibility and obtain condonation of the irregularity from competent authority.

The compliance of DAC's directive was not conveyed to Audit till the finalization of this Audit Report.

Audit recommends fixing of responsibility against persons responsible for violation of Public Procurement Rules.

(DP. 21, 22)

### **Internal Control Weaknesses**

#### **12.4.3 Loss due to non-return of Ph.D scholars from abroad after completion of studies - Rs 55.11 million**

According to Surety Bond furnished by the Faculty members for Human Resource Development Programme (Ph.D), Scholarship Award was tenable initially for a period of five years/ three years, extendable in special cases for another year for the completion of Ph.D, upon the recommendations of the Supervisor. The scholar shall not extend the specified period of studies without approval of the institution/university. The scholars will serve in the institution/university for 5 years after completion of study.

Audit observed that:

- i. COMSATS selected fifty (50) Faculty members for PhD abroad. Expenditure of Rs 379.90 million was incurred under Sub-head "HRD" on account of payment of fee, stipend and others against PC-I provision of Rs 444.81 million upto 30<sup>th</sup> June, 2015. Five (5) persons out of fifty (50) did not return/ join the COMSATS after completion of their studies. The management had neither taken any action against the scholars

nor Surety Bonds were encashed. This resulted in monetary loss of Great Britain Pounds 268,860 (@ Rs 155.52), US\$ 6,040 (@ Rs 100) and Rs 1.376 million besides brain drain.

- ii. Pakistan Institute of Engineering & Applied Sciences (PIEAS) Islamabad selected 14 faculty members for PhD abroad. one (01) person out of fourteen (14) did not return/join the PIEAS after completion of PhD. the management had neither taken any action against the scholar nor Surety Bond was encashed. This resulted in monetary loss of Rs 11.32 million.

Audit holds that the nation suffered loss due to improper selection of candidates and ineffective monitoring system.

Audit pointed out the irregularity in November 2015. The COMSATS management replied that the CIIT authorities have initiated administrative and legal proceedings against the said scholars under its E&D Rules and the rules of scholarship award for recovery of expenses incurred on their education abroad. PIEAS replied that one scholar is still abroad and his expected return schedule is 31<sup>st</sup> January, 2016. In order to review the case of scholar as per HEC's guidelines, a high level University Scholarship Management Committee (USMC) has been constituted by Rector, PIEAS. Case of the said scholar would be discussed in the upcoming meeting of USMC and decision made in this regard will be intimated.

The matter was discussed in the DAC meeting held on 20<sup>th</sup> January, 2016. The CIIT management explained that legal notices have been issued to three persons while cases of two persons are in court of law. PIEAS explained that legal notice will be issued after due process. DAC directed the management to pursue the court case actively as considerable period of two to five years has been lapsed. In other cases due process of action against the persons be completed without delay.

Final action was not reported till the finalization of this Audit Report.

Audit recommends early compliance to the DAC's directive.

(DP. 4, 9)

#### **12.4.4 Unauthentic payment without detailed measurement - Rs 37.54 million**

Paras 208 and 209 of Central Public Works Accounts Code provide that payments for all work done and for all supplies are made on the basis of measurements recorded in the Measurement Books (MB). All measurements should be neatly taken down in MB issued for the purpose.

Audit noted that Project Director, Federal Urdu University of Arts, Science and Technology, Karachi awarded a work "Construction of Academic Block in Gulshan-e-Iqbal Campus" to M/s H.S Enterprises against bid price of Rs 178.23 million (after allowing 3% rebate). An amount of Rs 157.99 million was paid to the contractor upto ninth running bill.

Audit observed that a quantity of 375.82 ton steel was recorded in measurement books on lump sum basis without recording detailed measurements of steel bars used in the work (steel reinforcement in all kinds of RCC work). This resulted in unauthentic payment of Rs 37.54 million.

Audit holds that unauthentic payment resulted due to inadequate mechanism of technical as well as financial controls.

Audit pointed out the unauthentic payment in August 2015. The University did not reply.

The matter was discussed in the DAC meeting held on 4<sup>th</sup> February, 2016. The Committee observed with concern that mandatory requirement of recording of detailed measurement of steel bars was not

fulfilled to authenticate the quantity of steel used and payment made therefor. The Committee directed Vice Chancellor, FUUAST to work out details of steel bars as per approved design, record detailed measurements along with lab test reports, concrete core test, bar bending schedule and get the same verified from Audit within seven days.

The compliance of the DAC's directive was not made till the finalization of this Audit Report.

Audit recommends that record be got verified from Audit.

(DP.25)

#### **12.4.5 Overpayment due to allowing higher rates - Rs 4.27 million**

Item -46 Aluminum window/ventilator of BoQ in respect of work "Construction of Academic Block" at Federal Urdu University of Arts, Science and Technology, Karachi, awarded to M/s H.S Enterprises, describes that the contractor has to provide and fix fully glazed champagne anodized aluminum sliding windows complete as required, at the rate of Rs 450 per sft.

Audit noted that Project Director, Federal Urdu University of Arts, Science and Technology, Karachi introduced an extra item of Aluminum windows. The item was measured for a quantity of 5,340.00 sft and paid for Rs 6.68 million @ Rs 1,250 per sft upto 9<sup>th</sup> running bill.

Audit observed that the item already existed in the BoQ @ Rs 450 per sft, yet an extra item was created at higher rates. This resulted into an overpayment to the contractor involving Rs 4.27 million.

Audit holds that the overpayment was due to weak internal controls.

Audit pointed out the overpayment in August 2015. The management replied that there was complaint of the residents of the area regarding their privacy and the consultant advised and approved to use

aluminum louvered to solve the privacy issues of the residents. The extra item was finally approved by the Vice Chancellor.

The reply was not tenable as item was executed at higher rates than provided in the BOQ.

The matter was discussed in DAC meeting held on 4<sup>th</sup> February, 2016. The Vice Chancellor, FUUAST explained that due to complaints of the residents of the area on privacy issue the consultant advised the use of aluminum louvered which was approved by the then Vice Chancellor.

The Committee was not satisfied with the explanation as rate analysis/estimated rate of original item and that of extra item was not available with the management of FUUAST and directed to conduct a Fact Finding Inquiry at HEC level for fixing of responsibility and submit report within three months.

Audit recommends fixing of responsibility against persons responsible for violation of PC-I and appropriate action against the persons responsible.

(DP. 18)

#### **12.4.6 Overpayment due to allowing higher rates - Rs 4.05 million**

The item providing and laying 5” thick 1:2:4 plain cement concrete was provided in BoQ (item No 85) @ Rs 175 per sft of the work “Construction of Academic Block in Federal Urdu University of Arts, Science and Technology, Karachi” awarded to M/s H.S. Enterprises.

Audit noted that Project Director, Federal Urdu University of Arts, Science and Technology, Karachi measured and paid extra item- Concrete 1:2:4 for a quantity of 14,815 sft @ Rs 448.41 per sft for Rs 6.64 million upto 9<sup>th</sup> running bill.

Audit observed that the item already existed in the BoQ @ Rs 175 per sft with 5” thickness yet an extra item was created at higher rates.

Audit further observed that detailed measurements showing thickness of the cement concrete was also not recorded in Measurement Book. This resulted in an overpayment of Rs 4.05 million to the contractor.

Audit holds that the overpayment was caused by inadequate mechanism of technical and financial controls.

Audit pointed out the overpayment in August 2015. The University did not reply.

The matter was discussed in the DAC meeting held on 4<sup>th</sup> February, 2016. VC FUUAST explained that extra items of cement plaster, door beading, acid proof tiles etc were advised by the consultant which were approved by the then Vice Chancellor. The Committee was not satisfied with the explanation and directed that the issue may also be inquired by the Fact Finding Inquiry Committee constituted for other issues.

Audit recommends fixing of responsibility against persons responsible for violation of contract provisions and appropriate action against the persons responsible.

(DP.20)

#### **12.4.7 Overpayment due to allowing separate payment of inbuilt component through extra item - Rs 3.62 million**

As per specification of item 72-Porcelain tiles flooring and 76-Marble tile flooring, cost of cement concrete mortar 1:4 was included in item rates as quoted by the contractor as evident from the BoQ of the work Construction of Academic Block at Federal Urdu University of Arts, Science and Technology, Karachi awarded to M/s H.S Enterprises.

Audit noted that Project Director, Federal Urdu University of Arts, Science and Technology, Karachi measured and paid extra item- Laying 1:4 mortar under flooring tiles and marble flooring for a quantity of 72,397.64 sft @ Rs 50 per sft for Rs 3.62 million upto 9<sup>th</sup> running bill.



Audit observed that the cost of CC mortar 1:4 was already included in relevant BoQ items No. 72 and 76 which was paid for again through unduly created extra item.

Audit holds that the overpayment was due to inadequate mechanism of technical and financial controls.

Audit pointed out the overpayment in August 2015. The University did not reply.

The matter was discussed in the DAC meeting held on 4<sup>th</sup> February, 2016. VC FUUAST explained that extra item of acid proof tiles for chemical laboratory was approved by the then Vice Chancellor. The Committee observed with concern that there appears to be no sound technical reason for extra item of acid proof tiles as the same was not conceived originally keeping in view the project requirements. Moreover, separate payment of laying of cement mortar was not admissible in any case. DAC directed the management to effect recovery within four weeks.

The compliance of DAC directive was not made till the finalization of this Audit Report.

Audit recommends that recovery be made and got verified from Audit at the earliest.

(DP.17)

#### **12.4.8 Excessive expenditure due to allowing BoQ item through extra item at higher rates - Rs 2.51 million**

Rule 10(i) of General Financial Rules (Vol-I) provides that every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

Audit noted that Project Director, Federal Urdu University of Arts, Science and Technology, Karachi measured and paid following extra items upto 9<sup>th</sup> running bill involving payment of Rs 4.05 million.

Description	Qty (sft)	Rate (Rs)	Amount (Rs)
Cement Plaster	21,141.21	60	1,268,472
Door beading	8050.50	100	805,050
Concrete pouring over Lab Counter	2,493	60	149,616
Granitto tile Lab Counter	5,382.50	339	1,824,667
<b>Total</b>			<b>4,047,805</b>

Audit observed that:

- i. The item of Cement Plaster was already available in BoQ under item-25, 26 and 27 with the cost of Rs 22 to 40 per sft, yet another item was created @ Rs 60 per sft. This resulted in overpayment of Rs 803,365.
- ii. The cost of wooden door beading was already included in the cost of BoQ item 34 and 35. Therefore, payment of Rs 805,050 for extra item was not admissible.
- iii. Item No-79 (a) was available in the BoQ with specification/nomenclature as one inch thick marble Boticina slab jointed and grouted in cement mortar 1:4 and slurry..." @ Rs 200 per sft. Despite the availability of this item, two separate items of concrete pouring and Granitto tile Lab Counter were created and paid for at higher rates without substitution of BOQ item. This resulted in an overpayment of Rs 897,783.

Audit holds that deviations from contract were due to inadequate mechanism of technical and financial controls.

Audit pointed out the overpayment in August 2015. The University did not reply.

The matter was discussed in the DAC meeting held on 4<sup>th</sup> February, 2016. VC FUUAST explained that extra items of cement plaster, door beading, acid proof tiles etc were advised by the consultant which were approved by the then Vice Chancellor. The Committee was not satisfied with the explanation and directed that the issue may also be inquired by the Fact Finding Inquiry Committee constituted for other issues.

Audit recommends fixing of responsibility against persons responsible for violation of contract provisions and appropriate action against the persons responsible.

(DP.19)

#### **12.4.9 Less recovery on account of income tax - Rs 0.71 million**

According to Federal Board of Revenue Circular No.2 of 2014 (Income Tax) issued vide C.No.4 (62) ITP/2014 dated 17<sup>th</sup> July 2014, the rate of tax to be deducted on execution of a contract other than a contract by sportspersons under clause (c) of sub-section (I) of section 153, was increased from 6% to 7% of the gross amount payable in the case of companies and from 6.5% to @ 7.5% in case of other tax payers.

Audit noted that Project Director, Federal Urdu University of Arts, Science and Technology, Karachi awarded a work Construction of Academic Block to M/s H.S. Enterprises against bid price of Rs 178.23 million after allowing 3% rebate.

The following bills were paid to the contractor during 2014-15:

- Eighth running bill amounting to Rs 20.77 million was paid on 22<sup>nd</sup> July, 2014
- Ninth running bill amounting to Rs 25.05 million was paid on 3<sup>rd</sup> October, 2014.

Audit observed that income tax was deducted from the bills @ 6% instead of 7% in violation of the FBR notification. This resulted in less recovery of income tax amounting to Rs 687,258. It was further observed that an amount of Rs 300,000 was also paid to the contractor on account of calligraphy charges without deduction of 7.5% income tax during the period amounting to Rs 22,500. This resulted in less/non-recovery of income tax of Rs 709,758.

Audit holds that less/non-recovery of tax was due to weak internal/financial controls.

Audit pointed out the less/non-recovery of tax in August 2015. The University did not reply.

The matter was discussed in DAC meeting held on 4<sup>th</sup> February, 2016. VC FUUAST explained that remaining amount will be deducted from the contractor in the next bill. DAC directed the VC FUUAST to recover the less/non-deducted income tax and deposit the same in government treasury within a month.

The compliance of DAC's directive was not made till the finalization of this Audit Report.

Audit recommends that recovery be made and got verified from Audit at the earliest.

(DP.23)

## **CHAPTER 13**

### **WORKERS WELFARE FUND/BOARDS (MINISTRY OF OVERSEAS PAKISTANIS AND HUMAN RESOURCE DEVELOPMENT)**

#### **13.1 Introduction**

The Workers Welfare Fund (WWF) was established at the federal level and Workers Welfare Boards (WWBs) at the provincial level under Workers Welfare Fund Ordinance, 1971. The Secretary, Ministry of Overseas Pakistanis and Human Resource Development is the Principal Accounting Officer of the WWF/WWBs.

The main functions of the WWF include financing projects connected with the establishment of housing estates, construction of houses, schools, hospitals and technical training institutes for the workers. Each WWB is headed by a Chairman, assisted by Secretary and eighteen members, both from the government and employees of the Board. The Board is empowered for:

- a) allotment, cancellation, fixation of rent of the houses financed by the money allocated from the Fund,
- b) maintenance/repairs of the houses, and
- c) any other measures for the welfare of workers.

### 13.2 Comments on Budget and Accounts (Variance Analysis)

The table below shows position of head-wise budget allocation and expenditure for 2014-15:

(Rs in million)

Head of Account	Budget Allocation	Expenditure	Variation Excess/ (Saving)	Excess/ (Saving) in %
Establishment Charges	961.82	918.33	(43.49)	(4.52)
Other office running Expenses	384.96	307.28	(77.68)	(20.18)
Scholarships	1,527.00	778.18	(748.82)	(49.04)
Marriage Grant	1,418.00	323.62	(1,094.38)	(77.18)
Death Grant	1,480.00	484.85	(995.15)	(67.24)
Sewing Machines	68.00	0	(68)	(100)
Welfare measures (others)	211.00	37.02	(173.98)	(82.45)
Education	6,991.74	4,484.78	(2,506.96)	(35.86)
Development Works	8,983.88	3,451.29	(5,532.59)	(61.58)
New Schemes	2,500.00	0	(2,500)	(100)
Purchase of Land	500.00	0	(500)	(100)
<b>Total</b>	<b>25,026.40</b>	<b>10,785.35</b>	<b>14,241.06</b>	<b>56.90</b>

- Funds of Rs 2,500.00 million were allocated for new schemes but were not utilized which indicated that planned targets were not achieved by the managers of Fund/Boards.
- Funds of Rs 6,991.74 million were allocated under the head “Education” against which expenditure of Rs 4,484.78 million was incurred with a saving of Rs 2,506.96 million (35.86 %) which indicated that planned education targets were not achieved by the managers of Fund/Boards.
- There was an allocation of Rs 68.00 million for sewing machines but funds were not utilized by the WWBs. This showed that deserving workers were deprived of the intended benefits of the scheme.

- Funds of Rs 8,983.88 million were allocated for development works and Rs 3,451.29 million were utilized involving a saving of Rs 5,532.59 million. Less utilization and saving of 61.58% development budget was indicative of lackluster performance of the Department.
- Audit observed that against actual closing balance of Workers Welfare Trust Account Fund of Rs 136,871.41 million on 31<sup>st</sup> May, 2015 as shown in the Finance Accounts of the Federal Government, closing balance was shown in the accounts of Workers Welfare Fund as Rs 88,424.14 million. This shows discrepancy in the figures of Workers Welfare Trust Fund Account of Rs 48,447.27 million (DP. 7).

### **13.3 Brief comments on the status of compliance with PAC's directives**

Compliance position of PAC's directives on Audit Reports relating to WWF/WWBs is as under:

<b>Year</b>	<b>Total Paras</b>	<b>No. of Paras Discussed</b>	<b>Compliance Made</b>	<b>Compliance Awaited</b>	<b>Percentage of Compliance</b>
1992-93	02	02	01	01	50.00
1994-95	01	01	01	-	100
1995-96	01	01	01	-	100
2000-01	17	17	12	05	70.59
2003-04	07	07	02	05	28.57
2004-05	06	06	05	01	83.33
2005-06	06	06	05	01	83.33
2008-09	07	07	04	03	57.14
2010-11	13	13	1	12	7.69

Note: Audit Reports for 2009-10, 2011-12, 2012-13, 2013-14 and 2014-15 have not been discussed by PAC till the finalization of this Audit Report.

## **13.4 AUDIT PARAS**

### **Irregularity and Non-Compliance**

#### **13.4.1 Unauthentic expenditure on account of Scholarship/Marriage and Death grant - Rs 550.82 million**

As per Para 6.3.4.1 of Accounting Policy and Procedures Manual a monthly reconciliation of bank accounts is a necessary part of financial management and is also an effective measure for detecting and deterring fraud and irregularities.

Para 5(b) System of Financial Control and Budgeting (September 2006) provides that Principal Accounting Officer shall ensure that the funds allotted to a Ministry/Division etc. are spent for the purpose for which they are allotted. He should also ensure that the expenditure falls within the ambit of a grant or an appropriation duly authenticated. Expenditure in excess of the amount of grant as well as expenditure not falling within scope or intention of any grant or appropriations unless regularized by a supplementary grant will be treated as un-authorized. Moreover, Para 5(d) provides that the Principal Accounting Officer is responsible to ensure that payments are correctly classified and departmental accounts are regularly reconciled every month.

Audit noted that according to Scholarship/Marriage and Death Grant Section of Workers Welfare Board, Khyber Pakhtunkhwa, Peshawar an expenditure of Rs 1,245.62 million was incurred on account of Scholarship, Marriage and Death Grant during last 6 years from 2009-10 to 2014-15 whereas according to record of Director Finance, Workers Welfare Board, Peshawar an expenditure of Rs 1,796.44 million was booked in the accounts of the Board under this head. This resulted into unauthentic expenditure of Rs 550.82 million in marriage/death and scholarship funds as detailed below:



(Rs in million)

<b>Grant</b>	<b>Expenditure Figures of respective Section</b>	<b>Expenditure Figures of Finance Section</b>	<b>Difference</b>
Scholarship	1,104.99	1,618.53	513.54
Marriage Grant	78.53	106.51	27.98
Death Grant	62.10	71.40	9.30
<b>Total</b>	<b>1,245.62</b>	<b>1,796.44</b>	<b>550.82</b>

An effective mechanism was not in place to reconcile release of funds made by the issuing authority, their accountal by the receiving end and further utilization, which accumulated huge difference.

Audit pointed out the irregularity in October 2015. The Board replied that detail of funds provided by Finance & Account Section may be read as “release” and not “expenditure”. Funds released for the years 2009-15 were Rs 1,632.59 million and expenditure incurred against this was Rs 1,104.99 million on scholarships. As against Marriage and Death Grants, a sum of Rs 212.23 million was released and an expenditure of Rs 176.80 million was incurred.

The reply was not tenable because bank statements for the period under question were not produced by the Board in support of their stance. There was no evidence on record showing unspent funds with the Board or its surrender to WWF. Huge difference in two sets of figures is a serious issue which requires resolution through reconciliation.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends holding of an inquiry into the matter and fixing of responsibility against responsible persons besides production of relevant record to Audit.

(DP. 15, 16)

### 13.4.2 Unauthorized payment of rental ceiling for hiring of residential accommodation at non-specified stations - Rs 205.58 million

As per Section (8)(3) of Workers Welfare Fund Ordinance, 1971, the Governing Body shall determine the terms and conditions of the service of the employees with the previous approval of the Federal Government.

According to Ministry of Housing and Works Office Memo No.F.4(8)/92-Policy dated 1<sup>st</sup> October, 2014, rental ceiling for hiring of residential accommodation is admissible at six specified stations i.e. Islamabad, Rawalpindi, Lahore, Karachi, Quetta and Peshawar.

Audit noted that Education Sections of Sindh Workers Welfare Board, Karachi and Balochistan Workers Welfare Board, Quetta allowed ceiling for hiring of residential accommodation on monthly basis with the salary in place of House Rent Allowance to the employees posted at non-specified stations. Allowing of rental ceiling at stations other than Karachi and Quetta was violation of the relevant rules. This resulted in unauthorized payment of rental ceiling as house rent allowance for Rs 205.58 million, as detailed below:

S. No.	Board	DP No.	Amount (Rs in million)	Stations
1.	Sindh Workers Welfare Board, Karachi	33	182.54	Mirpur Khas, Nooriabad, Sajjawal, Larkana, Lakhra, Mirpur Mathelo, Khairpur, Thatta, Sukkur, Hyderabad, Dherki, Kotri
2.	Balochistan Workers Welfare Board, Quetta	55	23.04	Hub, Khuzdar, Muslim Bagh, Dalbanadin, Pishin, Noukandi
<b>Total</b>			<b>205.58</b>	

Audit pointed out unauthorized payment in September/November, 2015. The Sindh Workers Welfare Board replied that payment of house rent ceiling was made as per approval of Governing Body of Workers Welfare Fund who approved the rates in its 111<sup>th</sup> meeting held on 28<sup>th</sup> April, 2011. The Governing Body is authorized to allow the rates. Similar observation was also raised by Audit during the year 2013-14 and the matter was referred to Ministry of Law for clarification in the decision taken in DAC meeting held on 07<sup>th</sup> January, 2014, who also endorsed that Governing Body of WWF is authorized to take the decision, therefore the payment made by Board is correct. Balochistan Workers Welfare Board replied that the matter would be placed before upcoming meeting of Governing Body for further decision.

The reply was not tenable because no record was produced by WWB Karachi in support of their reply. Further, the house hiring ceiling allowed at non-specified stations was violation of the Government rules and therefore, held unauthorized. As per Section 8(3), previous approval of Federal Government was required on decisions of Governing Body in employee related matters. Further, Ministry of Overseas Pakistanis and Human Resource Development vide D.O. letter dated 10<sup>th</sup> September, 2015, addressed to the Auditor General of Pakistan clarified that all kind of allowances being drawn by WWF/Boards require prior approval of the Federal Government.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends early clarification of the matter from Finance Division or otherwise to effect recovery

(DP. 33, 55)

### **13.4.3 Irregular payment of house rent ceiling at higher rates - Rs 11.57 million**

Ministry of Housing and Works with the concurrence of the Finance Division (Regulation Wing) vide O.M. No. F-4(8)/92-Policy dated 18<sup>th</sup> October, 2011 issued revised rental ceiling for hiring of residential accommodation at six specified stations, i.e. Islamabad, Rawalpindi, Lahore, Quetta, Karachi and Peshawar w.e.f 1<sup>st</sup> July, 2011. According to the notification the rental ceiling of Islamabad was higher than rest of the five cities/stations. Further, as per minutes of the DAC meeting held on 17<sup>th</sup> January, 2012, the Committee directed to discontinue the payment of house rent ceiling at higher rates in consultation with Financial Advisor and issue revised instructions accordingly.

Accounts record of three schools under Directorate of Education, Punjab Workers Welfare Board Lahore, situated at stations other than specified cities in Finance Division letter i.e. Girls School at Sahoki Mallian Sheikhpura, Boys School at Jauharabad and boys School at Peoples Colony Gujranwala were examined by Audit and it was found that that Punjab Workers Welfare Boards, Lahore continued to pay house rent ceiling specified for Islamabad to school employees instead of house rent allowance for the respective stations. This resulted into an overpayment of Rs 11.57 million.

Audit holds that overpayment of Rs 11.57 million on account of house rent allowance occurred due to misuse of authority and weak internal controls.

Audit pointed out the irregularity in July 2015. The Board replied that the Directorate of Educations/Workers Welfare Schools were under control of Punjab Workers Welfare Board and as per decision of Governing Body, their employees were entitled to the same financial facilities as admissible to the employees of Board. The matter would again be presented before Governing Body for regularization.

The reply was not tenable because the house hiring ceiling was allowed at non-specified stations was violation of the Government rules. As per Section 8(3), previous approval of Federal Government was required on decisions of Governing Body in employee related matters.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends early clarification of the matter from Finance Division or otherwise to effect recovery

(DP. 24)

#### **13.4.4 Non-obtaining of vouched account of compensation - Rs 129.50 million**

According to Federal Treasury Rules (Responsibility for the money withdrawn (Rules 205 to 216) “Every Government officer entrusted with the payment of money should obtain for every payment he makes a voucher setting forth the full and clear particulars regarding the claims and all relevant information necessary for its proper identification and classification in accounts. Every voucher must bear to have attached to it an acknowledgement of payment signed by the person by whom or on whose behalf the claim is put forward. Where it is not possible to obtain an acknowledgement, a certificate of disbursement should be in manuscript, signed by the disbursing officer and countersigned by the superior officer”. A memorandum detailing the reasons for not obtaining an acknowledgement should also be drawn and kept on record.

Audit noted that the Sindh Workers Welfare Board, Karachi incurred an expenditure of Rs 171.40 million on account of compensation to families of deceased workers during the year 2014-15 out of allocation of Rs 350.00 million.

Audit observed that an amount of Rs 129.50 million was deposited with the Nazir of Sindh High Court (SHC) Karachi vide cheque

No.5754285 dated 27<sup>th</sup> November, 2014 in compliance of orders dated 19<sup>th</sup> November, 2014 of SHC to insure early disbursement among the families of deceased workers of Baldia Town incident Karachi. It is further observed that the department has not requested the Nazir, SHC for obtaining of receipts/acknowledgement of payments to complete their record in support of expenditure besides the refund of unspent balance, if any. This resulted in non-obtaining of vouched account for payment of Rs 129.50 million

Audit pointed out the non-adjustment of advance payment in September 2015. The Board replied that the payment was deposited through crossed cheques to the Nazir of Sindh High Court as the compensation for Baldia Fire Victims. The Nazir is being asked to furnish the details or status of payments so far.

The reply was not tenable because progress/vouched account for adjustment of advance payment was not obtained.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends early obtaining of vouched account.

(DP. 36)

#### **13.4.5 Unauthorized/Overpayment of conveyance allowance and house hiring due to allowing higher rates than rates notified by the Government - Rs 92.84 million**

According to Finance Division (Regulation Wing) Office Memo No. F.3(1)-R.5/2010 dated 3<sup>rd</sup> July, 2017, the rates of conveyance allowance admissible to Civil Servants working in BPS-01 to BPS-19 are as under:

- BPS-01 to BPS-10                      Rs 1,500 per month
- BPS-11 to BPS-15                     Rs 2,000 per month
- BPS-16 to BPS-19                     Rs 5,000 per month

Further, according to Ministry of Housing and Works Office Memo No. F.4(8)/92-Policy dated 1<sup>st</sup> October, 2014, rental ceiling for hiring of residential accommodation is admissible at Karachi at following rates:

<b>BPS</b>	<b>Ceiling upto 30.09.2014 (Rs per month)</b>	<b>Ceiling w.e.f 01.10.2014 (Rs per month)</b>
1-2	2,260	3,051
3-6	3,310	4,469
7-10	5,035	6,797
11-13	7,360	9,936
14-16	9,305	12,562
17-18	12,310	16,619
19	16,055	21,674

Audit noted that the Sindh Workers Welfare Board, Karachi allowed conveyance allowance @ Rs 6,000 per month to employees in BPS-01 to BPS-15 and Rs 8,000 per month to employees in BPS-16 and above without approval of Finance Division. Thus rates of conveyance allowance allowed by the Board were about 60% higher than the rates notified by the Finance Division. Audit further noted that ceiling for hiring of residential accommodation was paid on monthly basis with the salary in place of House Rent Allowance to the employees posted at Karachi including Education Section. Audit observed that rental ceiling at Karachi was allowed at rates admissible at Islamabad instead of rates applicable at Karachi in violation of the relevant rules. This resulted in unauthorized/overpayment of conveyance allowance and house hiring amounting to Rs 92.84 million (81.20 million+11.64 million).

Audit pointed out the unauthorized payment in September 2015. The Board replied that the payment of conveyance allowance and house rent allowance was made as per approval of Governing Body of Workers Welfare Fund who approved the rates in its 111<sup>th</sup> meeting held on 28<sup>th</sup> April, 2011. The Governing Body is authorized to allow the rates. Similar observation was also raised by Audit during the year 2013-14 and the matter was referred to Ministry of Law for clarification in the decision taken in DAC meeting held on 07<sup>th</sup> January, 2014, who also endorsed that

Governing Body of Workers Welfare Fund is authorized to take the decision, therefore the payment made by Board is correct.

The reply was not tenable because conveyance allowance and house hiring was allowed at higher rates than notified by the Finance Division and Ministry of Housing & Works. As per Section 8(3), previous approval of Federal Government was required on decisions of Governing Body in employee related matters.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends early clarification of the matter from Finance Division or to effect recovery.

(DP. 34)

**13.4.6 Unauthorized payment of conveyance allowances due to allowing higher rates than rates notified by the Finance Division - Rs 21.01 million**

According to Finance Division (Regulation Wing) Office Memo No.F.3(1)-R.5/2010 dated 3<sup>rd</sup> July, 2011 the rates of conveyance allowance admissible to Civil Servants working in BPS-01 to BPS-19 are as under:

BPS-01 to BPS-10	Rs 1,500 per month
BPS-11 to BPS-15	Rs 2,000 per month
BPS-16 to BPS-19	Rs 5,000 per month

Audit observed that the Balochistan Workers Welfare Board, Quetta allowed conveyance allowance @ Rs 6,000 per month to employees in BPS-01 to BPS-15 and Rs 8,000 per month to employees in BPS-16 and above without approval of Finance Division. Thus rates of conveyance allowance allowed by the Board were about 60% higher than the rates notified by the Finance Division. This resulted in unauthorized payment of conveyance allowance for Rs 21.01 million.



Audit pointed out unauthorized payment in November 2015. The Board replied that the employees of WWB Balochistan are not covered within the definition of Civil Servants. According to the Workers Welfare Fund Ordinance, 1971, the Governing Body of Workers Welfare Fund is competent authority to sanction such expenditure in terms of clause (b) of the Section 10 of Workers Welfare Fund Ordinance, 1971. Similarly, the functions of the Governing Body shall be “to sanction the expenditure in respect of Administration & Management of the Fund”. In this regard, the same rules were adopted by the Provincial Workers Welfare Board vide WWF letter No.WWF(A)2(55)/96, dated 09<sup>th</sup> June, 1997 and this office letter dated 29<sup>th</sup> July, 1997. Therefore, in pursuance of Governing Body decision taken in its 111<sup>th</sup> meeting held on 28<sup>th</sup> April, 2011 the rates of Conveyance Allowance were enhanced to Rs 8,000 per month w.e.f. 1<sup>st</sup> May, 2011. Now, as per constitution of Provincial Boards and adoption of Workers Welfare Fund (Employees Service) Rules, 1997, the rates approved by Governing Body are applicable to the employees of this Board.

The reply was not tenable because the conveyance allowance was paid at higher rates than notified by the Finance Division. As per Section 8(3), previous approval of Federal Government was required on decision of Governing Body in employee related matters.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends early clarification of the matter from Finance Division or recovery of the amount involved.

(DP. 56)

#### **13.4.7 Unjustified payment of Dearness Allowance to employees - Rs 15.45 million**

According to Finance Division (Regulation Wing) Office Memo No. F.3(1)-R.5/2010 dated 3<sup>rd</sup> July, 2011 there was no provision for

payment of Dearness Allowance @ Rs 1,000 per month in revised scales effective from 1<sup>st</sup> July, 2011.

Audit noted that the Sindh Workers Welfare Board, Karachi and Balochistan Workers Welfare Board, Quetta allowed Dearness Allowance @ Rs 1,000 per month to employees working in office and schools under Education Section without any provision in the relevant rules. Further, any specific approval of Finance Division was not on record. Thus payment of dearness allowance was allowed by the Boards without any justification/authority. This resulted in unjustified payment of Dearness Allowance for Rs 15.45 million as detailed below:

<b>S. No.</b>	<b>Board</b>	<b>DP No.</b>	<b>Amount (Rs in million)</b>	<b>Remarks</b>
1.	Sindh Workers Welfare Board, Karachi	38	11.17	Employees of 29 schools
2.	Balochistan Workers Welfare Board, Quetta	64	4.28	357 employees of Education Section
<b>Total</b>			<b>15.45</b>	

Audit pointed out the unjustified payment in September/November 2015. The WWB Board, Karachi replied that the payment of Dearness Allowance is being made as per approval of Governing Body of Workers Welfare Fund who approved the rates in its 111<sup>th</sup> meeting held on 28<sup>th</sup> April, 2011. The Governing Body is authorized to allow the rates. The Ministry of Law also endorsed that Governing Body of WWF is authorized to take the decision, therefore, the payment made by Board is correct. WWB, Quetta replied that the employees of WWB Balochistan are not covered within the definition of Civil Servants. The Governing Body of Workers Welfare Fund is competent authority to sanction such expenditure in terms of clause (b) of the Section 10 of Workers Welfare Fund Ordinance, 1971. In this regard, the same rules were adopted by the Provincial Workers Welfare Board vide WWF letter No.WWF(A) 2(55)/96, dated 09<sup>th</sup> June, 1997 and this office letter dated 29<sup>th</sup> July, 1997.

Therefore, in pursuance of Governing Body decision taken in its 111<sup>th</sup> meeting held on 28<sup>th</sup> April, 2011 at Islamabad the rates of Dearness Allowance enhanced and approved @ Rs 1,000 per month w.e.f. 1<sup>st</sup> May, 2011. Now, as per constitution of Provincial Boards and adoption of Workers Welfare Fund (Employees Service) Rules, 1997, the rates approved by Governing Body are applicable to the employees of this Board.

The reply was not tenable because pay & allowances to employees of the Board are paid as per pay scales issued by the Finance Division and Dearness Allowance in Education Section was not approved/allowed in the prevailing pay scales. As per Section 8(3), previous approval of Federal Government was required on decisions of Governing Body in employee related matters.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends early clarification of the matter from Finance Division or recovery of the amount involved.

(DP. 38, 64)

#### **13.4.8 Unjustified payment on account of teaching allowance and science teaching allowance - Rs 10.85 million**

Government of Pakistan, Finance Division (Regulation Wing) vide O.M No.F-1 (5)/IP/2006 dated 24<sup>th</sup> June, 2006 sanctioned w.e.f 1<sup>st</sup> July, 2006 and till further order a teaching allowance to all teachers of the Federal Government's Education Institutions at the rates and conditions as detail below:

- |      |   |                      |
|------|---|----------------------|
| i.   | Matric with PTC/Equivalent                  | @ Rs 500 per month   |
| ii.  | F.A/F.Sc with CT/equivalent                 | @ Rs 750 per month   |
| iii. | B.A/M.A with B.Ed/M.Ed and above Equivalent | @ Rs 1,000 per month |

The schools of Punjab Workers Welfare Board are governed under Workers Children (Education) Ordinance, 1972 of Government of the Punjab. Further, in line with the decision of the services and General Administration Department (Regulation Wing) and the Education Department, Government of the Punjab, existing contract employees (teaching & non-teaching) of the Directorate of Education and the Workers Welfare Schools shall stand regularized vide No.WW.Edu-11(510)109-08 dated 1<sup>st</sup> March, 2010 and the teaching & non-teaching employees are drawing pay and allowances i.e. Charge allowance and science teaching allowance not admissible under Provincial Government rules.

Audit noted that Director Education, Punjab Workers Welfare Board, Lahore released salaries of school teachers and other staff of Worker Welfare Schools established in Punjab, to Principals of the schools during year 2014-15. The salaries released were inclusive of teaching allowance and science teacher allowance.

Audit observed that teaching allowance is admissible to Federal Government employees of the Education Department and not admissible to the teaching staff of Workers Welfare Schools. Payment of Federal teaching allowance to teachers of Workers Welfare Schools resulted in unjustified payment of Rs 10.85 million.

Audit holds that unjustified payment of teaching allowance and science teaching allowance occurred due to non-adherence to rules and regulations and weak financial/internal controls.

Audit pointed out the unjustified payment in July 2015. The Board replied that the employees of Directorate of Education/ Workers Welfare Schools were treated as employees of Punjab Workers Welfare Board and as per decision of Governing Body were entitled to the same financial facilities as admissible to the employees of the Board. On a similar para the matter was referred to Workers Welfare Fund Islamabad for seeking clarification from Finance Division. In reply WWF Islamabad clarified

that Governing Body was competent authority under Workers Welfare Fund (Employees Service) Rules, 1997.

The reply was not tenable as approval of the Finance Division was required. As per Section 8(3), previous approval of Federal Government was required on decisions of Governing Body in employee related matters.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends early clarification of the matter from Finance Division or recovery of the amount involved.

(DP. 32)

**13.4.9 Overpayment due to payment of conveyance allowance at higher rates - Rs 4.59 million**

Finance Division, (Regulation Wing) Office Memorandum No.F-3 (1)-R.5/2010 dated 5<sup>th</sup> September, 2012 provides the rate for payment of conveyance allowance @ Rs 1,700 per month to employees in BPS-01 to 04, Rs 1,840 in BPS-05 to 10, Rs 2,720 in BPS-11 to 15 and Rs 5,000 in BPS-16 to 19.

Audit noted that the Directorate of Education, Punjab Workers Welfare Board Lahore paid Conveyance Allowance to employees of its schools all over the Punjab at higher rates over and above the limit fixed by the Federal Government.

Audit examined accounts record of three schools on a test check basis i.e. Workers Welfare School (Girls) Sahoki Mallian Sheikhpura, WWS (Boys) Jauharabad and WWS (Boys) Peoples Colony, Gujranwala and it was found that payment of conveyance allowance was made at higher rates which resulted in an overpayment of Rs 4.59 million.

Audit holds that overpayment of Rs 4.59 million on account of conveyance allowance occurred due to non-adherence to rules and regulation and misuse of authority & weak internal controls.

Audit pointed out overpayment in July 2015. The Board replied that the matter was referred to Workers Welfare Fund Islamabad for seeking clarification from Finance Division. In reply WWF Islamabad clarified that Governing Body was competent authority under Workers Welfare Fund (Employees Service) Rules 1997. On a para of similar nature, DAC in its meeting dated 17<sup>th</sup> January, 2012 directed to refer the case to Finance Division for clarification.

The reply was not tenable as no clarification of Finance Division was provided to Audit. Further, As per Section 8(3), previous approval of Federal Government was required on decision of Governing Body in employee related matters.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends early clarification of the matter from Finance Division or recovery of the amount involved.

(DP. 31)

#### **13.4.10 Irregular expenditure due to unauthorized appointments on ad-hoc basis beyond six months - Rs 1.20 million**

According to ESTA Code Part-IV (*Ad-hoc* and temporary appointments) (Para 19), when the appointing authority considers it to be in public interest to fill a post falling within the purview of the Commission urgently pending nomination of a candidate by the Commission, it may proceed to fill it on ad-hoc basis for a period of six months or less after obtaining prior clearance of the Commission. The post shall be advertised and the same procedures as laid down for initial appointment in Part III shall be followed in making ad-hoc appointments.

Audit noted that the Sindh Workers Welfare Board, Karachi appointed four (04) employees on ad-hoc basis in 2006. The ad-hoc appointment was for six months only but these employees were retained and being paid for last ten years without any authorization/extension in appointment. Thus the retention of employees appointed on ad-hoc basis beyond six months was irregular. This resulted in irregular expenditure of about Rs 1.20 million (Rs 25,000 x 12 x 4)

Audit pointed out the irregularity in September 2015. The Board replied that out of four employees, one has worked on contract basis and his term expired on 26<sup>th</sup> August, 2015. The post of other three employees would be regularized as soon as ban was lifted by the Government.

The reply was not satisfactory as appointment on ad-hoc basis beyond authorized period was irregular/unauthorized.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends that matter be investigated for fixing responsibility and action be taken against persons at fault.

(DP. 46)

#### **13.4.11 Non-insurance of work costing of Rs 712.32 million and recovery of premium of Rs 14.25 million @ 2 % of contract cost**

According to clause -21.1-25 of contract agreement, the contractor was bound to provide insurance policies for the persons, works and equipment etc. on the contract the sum of the contract price plus 15 %. He was also required to get third party insurance (including employer's property) against liabilities for death of or injuries to any person or loss or damages to the property arising out of the performance of the contract. The Contractor shall provide evidence to the Employer as soon as practical but in any case, prior to the start of the work all at site that the insurances required under the Contract have been affected and shall provide the insurance policies to the Employer. The Contractor shall also

submit in original receipts of all the premiums paid by the Contractor in connection with the insurances.

Audit noted that Workers Welfare Fund Islamabad awarded the work “Construction of 512 flats (Package-I & II) at Shaheed Benazirabad (Nawabshah)” to M/s Development Construction Services (DCS) at agreement cost of Rs 712.32 million (each package Rs 356.16 million) on 11<sup>th</sup> May, 2011. The contractor had been paid Rs 291.45 million upto 24<sup>th</sup> IPC (Package-I) and Rs 299.91 million upto IPC-23 against work done of package-II.

Audit observed that the management of Workers Welfare Fund Islamabad did not obtain insurance policies from the contractor as per provisions of agreement. In this way the contractor saved Rs 14.25 million 2% of the contract cost on account of premium included in the bid. This put the work of Rs 712.32 million on risk due to non-provision of insurance coverage.

Audit holds that the insurance coverage was not obtained due to inadequate oversight mechanism for effective implementation of internal controls.

Audit pointed out the irregularity in August 2015. The management of Workers Welfare Fund did not reply.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends early insurance of works on the cost of the Contractors besides recovery of the insurance premium for uninsured period.

(DP. 06)



## **Performance**

### **13.4.12 Unjustified expenditure on Matric-Tech Programme - Rs 47.38 million**

Para-5 of PC-I of the programme 'Establishment of Technical Workshop for Metric Tech Education in the Schools' approved by the Governing Body of WWF in its 102<sup>nd</sup> meeting held on 22<sup>nd</sup> October, 2009. According to PC-I of Metric Tech Project, Para 5, the project aims to provide basic technical training/skills to the youth at metric level in their schools which may help them to start a better career. The long term objectives are to introduce skill applications and provisions of appropriate training thereof enabling youth to have knowledge about the technology and chose their future course studies.

**13.4.12.1** Audit noted that management of eight (08) schools under Punjab Workers Welfare Board, Lahore incurred expenditure of Rs 26.32 million on the salaries of teaching staff appointed in schools for Metric Tech Project during 2014-15.

Audit observed that none of the schools was conducting training programme, which was the primary purpose of the project. The project did not achieve its goals despite incurring huge expenditure on pay and allowances and other related expenses. This resulted into an unjustified expenditure of Rs 26.32 million.

Audit holds that non-achievement of objectives of the project was due to weak administrative controls.

Audit pointed out unjustified expenditure in July 2015. The Board replied that the staff for the scheme was appointed by WWF Islamabad. The scheme could not be made operational due to procedural hardships. Now, the scheme was made operational in selected schools and 190 students were enrolled. However, on a similar para an inquiry was conducted at Ministry level outcome of which was awaited.

(DP. 30)

**13.4.12.2** Sindh Workers Welfare Board, Karachi incurred an expenditure of Rs 21.06 million on account of pay and allowances of 56 employees of schools during 2014-15.

Audit observed that no training programme was conducted even in a single school as no student was enrolled during 2014-15. This resulted in unjustified expenditure Rs 21.06 million.

Audit pointed out the matter in September 2015. The Board replied that Matric Tech project is launched by WWF in the year 2009. All planning and execution of project including recruitment of staff made by WWF. However, at present about 150 students are getting training in the schools. All the schools are in functional condition and running smoothly.

The reply was not tenable because the expenditure on the programme has been incurred without achieving the targets for which these funds were allocated which tantamount mismanagement of department causing loss to public fund.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends that matter be investigated and action be taken against persons at fault, besides appropriate corrective measures.

(DP. 43)

**13.4.13 Irregular payment due to non-functional equipment - Rs 6.60 million**

As per clause 60.1 of the agreement the payment shall be made to the contractor for the value of the permanent works executed.

Audit noted that Sindh Workers Welfare Board, Karachi made payment to the contractor for providing, fixing, testing and commissioning of turbine pump with all accessories and two motors of 60 horse power @

Rs 3.99 million each. Audit observed that electricity connection was not in position and water supply network is also not functional. In absence of these basic requirements, testing and commissioning of turbine pumps was not possible. But payment was released to the contractor. Thus, payment without testing and commissioning was irregular. This resulted in irregular payment of Rs 6.60 million (Rs 3.30 million x 02).

Audit pointed out the irregularity in September 2015. The Board replied that the motors were installed as per BOQ specifications. The testing and commissioning certificate from the consultant is on record. The payment was made after the entire satisfaction of quality of work done and recommendation of the consultant.

The reply was not tenable because testing/commissioning of installed equipment without available of electricity/water connection was not possible.

Audit recommends disciplinary action against those responsible for unjustified expenditure.

(DP. 40)

#### **13.4.14 Wasteful expenditure on non-operational school - Rs 1.02 million**

Rule 10(i) of General Financial Rules (Vol-I) provides that “Every officer incurring or authorizing expenditure from public funds is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

Audit noted that the Sindh Workers Welfare Board, Karachi (Education Wing) established a Primary School at Sajjawal (Distt. Thatta) but the very purpose of provision of education facility to the children of workers was not achieved as no teacher was posted in the school. But only pay of one office assistant, care taker and chowkidar was drawn for Rs 85,000 per month. This indicated that the school was non-functional

and expenditure was incurred without any benefit to the workers. This resulted in wasteful expenditure of Rs 1.02 million.

Audit pointed out the wasteful expenditure in September 2015. The Board replied that the school at Sajjawal was being run by the Dewan Sugar Mills, therefore, the rest of staff was not recruited. However, the other office staff recruited is performing their duties regularly and assisting the management and available for teaching.

The reply was not tenable because the contention in reply i.e. running of school by the Dewan Sugar Mills was not supported with evidence. Enrollment of students, employment of teachers and attendance of staff being paid by the Board needs authentication. Further, authority regarding appointment/payment of salary of staff by the Board in school being run by Dewan Sugar Mills was also not provided.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends disciplinary action against those responsible for unjustified expenditure.

(DP. 47)

### **Internal Control Weaknesses**

#### **13.4.15 Double payment on account of land acquisition cost - Rs 56.58 million**

The Chief Minister of Khyber Pakhtunkhwa constituted an inquiry committee owing to complaints about the alleged manipulation in land acquisition as well as price assessment process of the land for construction of workers welfare complex at village Kot Najeebullah tehsil/district Haripur.

Audit noted that the inquiry committee focused on various aspects of the case and established that besides lot of other procedural

irregularities and negligence an amount of Rs 56.58 million was paid twice by the Secretary of WWB, Khyber Pakhtunkhwa, Peshawar. Moreover, the inquiry committee also emphasized in conclusion, that to avoid such irregular and illegal deeds in future, the departments concerned were responsible to take remedial and punitive measures against the person at fault.

Audit pointed out the double payment in October 2015. The Board replied that the land was purchased in 1996. The inquiry officer reported that no embezzlement had been made as the subject land was purchased as per Land Acquisition Act 1894, through Collector on the basis of market rate.

The reply was not tenable as the inquiry was ordered by Chief Minister (Khyber Pakhtunkhwa) on 24<sup>th</sup> December, 2008. The inquiry was conducted and finalized on 13<sup>th</sup> August, 2009 with recommendation for recovery of Rs 56.58 million. Hence, overpayment needs to be recovered.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends fixing of responsibility against the responsables and recovery of the amount involved.

(DP. 18)

#### **13.4.16 Non-cancellation of allotments and forfeiture of deposited amount - Rs 16.80 million**

According to clause (3) of terms and conditions of allotment orders issued to the allottees “if the installment or other charges are in arrears for three months allotment shall be liable to cancellation. Further clause (4) provides that “if the allotment is cancelled, the flat/house shall be resumed and the payments, if any, made by the allottee shall be forfeited partly or wholly and may be decided by the Chairman of the Board.

Audit noted that Sindh Workers Welfare Board, Karachi allotted flats to the workers in 2006. The allottees were required to pay

Rs 15,000/Rs 20,000 as down payment and balance was to be recovered in monthly installments.

Audit observed that 1,092 allottees in 8 colonies at different stations in Sindh Province did not pay installments on due date during 2014-15 and gone into arrears which are accumulating in every month. Thus the allottees who defaulted in payment of installments of cost of flats for three consecutive months rendered themselves for cancellation of allotment. But the Management did not take action as per terms and conditions of the allotment to cancel the allotments and forfeiture of deposited amount on default by the allottee which is termed as negligence/inefficiency on the part of Management. This resulted in non-cancellation of allotments and forfeiture of deposited amount of Rs 16.80 million.

Audit pointed out the non-forfeiture of deposited amount on default in September 2015. The Board replied that similar para for the year 2003-2004 and likewise was also discussed in the sub-committee of the PAC on 1<sup>st</sup> September, 2015 and as per direction of the committee, action was being taken for cancellation of flats/houses with the help of law enforcement agencies.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends early recovery or cancellation of allotments.

(DP. 42)

#### **13.4.17 Non-recovery of outstanding dues from allottees - Rs 10.37 million**

According to Rule 26 of General Financial Rules (Vol-I) subject to any special arrangement that may be authorized by competent authority with respect to any particular class of receipts, it is the duty of the Departmental Controlling Officers to see that all sums due to Government

are regularly and promptly assessed, realized and duly credited in the Public Account.

According to Section 11-D “Recovery of Rent” of Workers Welfare Fund Ordinance, 1971 (amended up-to June 2008) where any rent or arrears of rent are due from any person under the scheme made under section 11-C, they may be recovered:

- (a) by deduction by his employer from his wages, if the Board or any person authorized by it in this behalf directs the employer so to do; or
- (b) as arrears of land revenue or as a public demand if, upon the application of the Board or any person authorized by it in this behalf, a Magistrate so directs

**13.4.17.1** Audit noted that the Secretary Workers Welfare Board, Quetta allotted 1,336 Quarters of WWB colonies to the workers on installment basis and amount Rs 30.92 million was to be recovered in monthly installments during the year 2014-15. Audit observed that the management of the Board recovered installments for Rs 15.07 million out of Rs 30.92 million leaving the balance in arrears. This resulted into non-recovery of Rs 15.85 million (Rs 30.92 million- Rs 15.07 million)

Audit pointed out non-recovery of dues in November 2015. The Board replied that efforts were being made for recovery of outstanding dues. Notices were being issued to the defaulters and they are contacting this office for obtaining details of outstanding dues and making the payments.

Audit verified that an amount of Rs 9.00 million was recovered leaving a balance of Rs 7.13 million up till December 2015.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends early recovery or cancellation of allotments.

(DP. 54)

**13.4.17.2** Audit noted that Punjab Workers Welfare Board, Lahore failed to recover a sum Rs 3.75 million on account of rent of colonies lying outstanding against 1,565 occupants of six (06) labour colonies for the year 2014-15.

Audit observed that total outstanding dues for the year 2014-15 were Rs 3.75 million. A sum of Rs 465,484 was recovered leaving Rs 3.29 million yet to be recovered. This resulted in to non-recovery of rent of Rs 3.28 million.

Audit holds that non-recovery was due to weak over sight mechanism for exercising the financial control and internal control.

Audit pointed out the non-recovery in July 2015. The Board replied that recovery of Rs 508,484 was made and outstanding rent was Rs 3.24 million.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends early recovery or cancellation of allotments.

(DP. 22)

**13.4.18 Loss due to award of supervision consultancy at higher rate - Rs 10.98 million**

Rule 29 of Public Procurement Rules, 2004 provides that procuring agencies shall formulate an appropriate evaluation criterion listing all the relevant information against which a bid is to be evaluated. Such evaluation criteria shall form an integral part of the bidding documents. Failure to provide for an unambiguous evaluation criteria in the bidding documents shall amount to mis-procurement.

Audit noted that Punjab Workers Welfare Board, Lahore awarded a contract for consultancy service for the work establishment of Workers



Welfare Complex at Multan (Phase-I) to M/s JERS Engineering Consultants @ 1.93% of the construction cost of the contract awarded to the contractors.

Audit observed that as per comparative statement and other bidding documents, consultants quoted rate for supervision charges as 1.42% of the construction cost of the contracts awarded to the contractors. Accordingly contract agreement was to be awarded @ 1.42% instead of 1.93%. Incorrect application of rate resulted in award of contract at higher rate for Rs 10.98 million (Rs 41.71 million – Rs 30.73 million)

Audit holds that the higher rate was accepted due to inadequate and weak implementation of internal controls.

Audit pointed out the loss in July 2015. The Board replied that the first lowest consultant did not quote rates as per man months mentioned in the TORs. The quoted rates were corrected as per required man-months, resultantly the bid amount increased and corresponding %age arrived at 1.93% instead of 1.42% and the firm was still first lowest, hence, was awarded the work.

The reply was not tenable because the Consultant firm quoted rates as per requirement of man-months during construction period of the work. They quoted rates for 24 man months against Resident Engineer, Operation and Maintenance and Accommodation correctly and actual required man months assessed/quoted by the consultants for Project Manager, ARE. Planning Engineer etc. Man-months were increased by the Board to favour the consultants.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends fixing of responsibility against the responsables and recovery of overpaid amount.

(DP. 19)

#### **13.4.19 Non-recovery of cost of trees - Rs 10.29 million**

According to nomenclature of the BOQ item No. INF-IA-01 (Section-A) “Felling of trees of any height, girth exceeding 6 inches to a feet (152 mm to 305 mm) cutting into portable pieces, taking out their entire roots and filling hollows with earth complete with dressing, consolidation and watering the filling including stacking and serviceable materials as directed lead upto 10 chains (305 Rm) including cost of earth” was provided @ Rs 82.40 each.

Audit noted that Workers Welfare Fund Islamabad awarded a work “Construction of infrastructure works at Labour Complex at Hattar Road, Taxila” to M/s Abdul Majeed & Co at agreement cost of Rs 180.36 million on 5<sup>th</sup> August, 2013. Audit further noted the contractor was paid upto 5<sup>th</sup> IPC on 31<sup>st</sup> October, 2014 which includes payment of Rs 121,128 + 100 % premium on account of felling of 1,470 trees upto the IPC-05.

Audit observed that neither the fallen trees were stacked at the designated place nor cost of the trees/serviceable material recovered from the bill of the contractor. This resulted in non-recovery of Rs 10.29 million.

Audit holds that non-recovery occurred due to weak internal controls.

Audit pointed out the non-recovery in August 2015. The management of Fund replied that the stock of trees was unserviceable/fire wood (Sufaida Tree) which was available at site.

The reply was not tenable because neither the trees were disposed of nor recovery was made from the contractor.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends fixing of responsibility against the responsables and recovery of the amount involved.

(DP. 03)

**13.4.20 Overpayment due to allowing excess quantities of items - Rs 7.21 million**

Clause 51.1 of agreement provided that there will be no change in increase/decrease in quantities without approval of the competent authority.

Audit noted that Sindh Workers Welfare Board, Karachi measured and paid quantity of item 1-a “Providing and laying gas lines.....2 inch dia” 3,880.62 meters against provision of 1,800 meters (115% excess) and item 1-b “providing and laying gas lines.....4 inch dia” was paid for 445 meter against provision of 243.38 meter with an excess of 54%. The excess quantities were not got approved from the competent authority. Increase in quantities seems unjustified as there was no change in scope of work. This resulted in an overpayment due to allowing excess quantities without approval worth Rs 7.21 million.

Audit pointed out the overpayment in September 2015. The Board replied that no extra payment was made on account of revision of quantities. The revision in quantities has been incorporated in the Revised PC-1 and the payment beyond the contract amount would only be paid after the approval of the revised PC-1.

The reply was not tenable because the quantities in excess of BOQ were executed and measured without approval of the variations by the competent authority.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends fixing of responsibility against the responsables and recovery of the amount involved.

(DP. 39)

**13.4.21 Loss due to non-disposal of residential quarters - Rs 6.60 million**

The main objectives of WWB are, a) Financing of projects for the establishment of housing estates or construction of houses for the industrial workers. B) Other measures for the welfare of workers: - (i) Education- Free of cost up to Secondary Level. (ii) Scholarships- Post Secondary Level. (iii) Marriage Grants (iv) Death Grants (v) Sewing Machines, etc.

Audit noted that the Balochistan Workers Welfare Board, Quetta constructed a residential labour colony at Gwadar in 2011 which contains 100 residential quarters. Audit observed that Board allotted 78 quarters to the workers of different industries. Remaining 22 quarters have not been disposed/allotted even after lapse of 5 years. In this way housing facility was not provided to the workers on one hand and loss was caused to Government on the other hand. This resulted in a loss of Rs 6.60 million (22 quarters @ Rs 300,000 each).

Audit pointed out the loss in November 2015. The Board replied that as per procedure, applications were invited from the interested industrial workers for allotment of houses but due to the existing law and order situation in Gwadar, very short number of applications received and houses were allotted. Due to present law and order situation some industrial units have stopped their work, which has adversely affected the submission of applications by the workers, as they could not get the application form verified by the management due to suspension of work/closure of industry. Efforts were being made to allot remaining houses to the industrial workers as per prescribed criteria and would be allotted to the interested industrial workers, fulfilling the criteria.

The reply was not tenable because the constructed houses were not allotted to workers. This also indicated that either the quarters were constructed without actual requirement or remained un-allotted due to lapse on the part of management.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends disciplinary action against those responsible for non-allotment of quarters.

(DP. 59)

#### **13.4.22 Irregular payment of scholarship - Rs 2.24 million**

Workers Welfare Fund (WWF) was established under Workers Welfare Fund Ordinance, 1971 for providing low cost housing and other amenities to the industrial labour. The Governing Body of WWF in its 38<sup>th</sup> meeting held on 08<sup>th</sup> January, 1997 launched this scheme so that the children endowed with intellect and intelligence can properly benefit from this scheme. Scholarships have been approved for talented children of workers studying in F.A, F.Sc, upto M.A, M.Sc, besides Medical and Engineering Colleges/Universities.

As per Industrial Relations Act, 2011 “ “Worker” and “Workman” mean person not falling within the definition of employer who is employed (including employment as a supervisor or as an apprentice) in an establishment or industry for hire or reward either directly or through a contractor whether the terms of employment are express or implied, and, for the purpose of any proceedings under this Act in relation to an industrial dispute includes a person who has been dismissed, discharged, retrenched, laid off or otherwise removed from employment in connection with or as a consequence of that dispute or whose dismissal, discharge, retrenchment, lay-off, or removal has led to that dispute but does not include any person who is employed mainly in managerial or administrative staff.

As per Section 2(h) of the Factories Act 1934 as amended in 1997 "worker" means a person employed directly or through an agency whether for wages or not in any manufacturing process, or in cleaning any part of the machinery or premises used for a manufacturing process, or in any other kind of work whatsoever, incidental to or connected with the subject

of the manufacturing process, but does not include any person solely employed in a clerical capacity in any room or place where no manufacturing process is being carried on.

Audit noted that Sindh Workers Welfare Board, Karachi made payment of Rs 6.61 million in June 2015 on account of scholarship to 251 workers of Sukkur region during the year 2014-15. Audit observed that 83 managerial staff such as assistant manager, accountant, cashier, supervisor, admin officer, analyst, chemist, dispenser etc. who do not fall in the definition of “worker” were allowed scholarship for their children irregularly. This resulted in irregular payment of Rs 2.24 million.

Audit pointed out the irregularity in September 2015. The Board replied that the definition of worker in IRA-2011 is given as “worker or workman mean person not falling within the definition of employer who is employed in an establishment or industry for hire or reward”. The basic condition for award of benefit is the registration from EOBI or SESSI and all the workers are registered from said institution. Their salaries are also ranging between Rs 8,000 to Rs 20,000 and are low paid workers and payment made is regular.

The reply was not tenable because scholarships were paid to employees who did not fall in the definition of worker.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends disciplinary action against those responsible for irregular expenditure.

(DP. 44)

## **CHAPTER 14**

### **PAKISTAN MEDICAL AND DENTAL COUNCIL**

#### **(MINISTRY OF NATIONAL HEALTH SERVICES, REGULATIONS AND COORDINATION)**

##### **14.1 Introduction**

Pakistan Medical and Dental Council (PM&DC) was constituted under Pakistan Medical and Dental Council Ordinance 1962, as a corporate body. The Council consists of 34 members headed by a President. The Council has an Executive Committee comprising of eight members. Being an autonomous regulatory body it does not get any grant-in-aid/loan from the Federal/Provincial/Local Government. As per clarification by the Establishment Division its employees are neither civil servants nor government servants.

The primary objective of the PM&DC is to register/recognize the government and private medical colleges with the approval of respective ministry as per prescribed criteria/policy besides registration/renewal of local and foreign undergraduates/graduates/postgraduates in medical and dentistry disciplines and registration of medical faculty. In order to govern day to day activities with regards to the service and administrative matters, PM&DC has framed certain rules and regulations under section 33 of the Ordinance. PM&DC is under the administrative control of Ministry of National Health Services, Regulations and Coordination.

##### **14.2 Comments on Budgets and Accounts**

Audit of the accounts of the Council was conducted during Phase-II of the Audit Year 2014-15 and accounts for the year 2013-14 were subject to audit. The position of budget allocation and expenditure of PM&DC for the financial year 2013-14 is narrated below:

(Rs in million)

Description	Budget	Expenditure	Excess/ (Saving)	Excess/ (Saving) %
<b>Non-Development</b>	301.75	236.40	(65.35)	(21.66)
<b>Development</b>	2.00	1.25	(0.75)	(37.50)
<b>Total</b>	<b>303.75</b>	<b>237.65</b>	<b>(66.10)</b>	<b>(21.76)</b>

Non-development budget constituted 99.34% of the total budget. There was a saving of Rs 65.35 million under non-development head which constituted 21.66% of the allocation.

### Receipts

(Rs in million)

Estimated Receipts	Actual Receipts	Variation Excess/ (Shortfall)	Variation in %
299.34	357.52	58.18	19.44

Actual receipts on account of Registration Fee, Inspection Fee, Faculty Registration were more than the estimated receipts. Under these heads of receipt, a sum of Rs 357.52 million was realized against estimated receipt of Rs 299.34 million. This recorded an excess collection of 19.44%.

### 14.3 Brief comments on the status of compliance with PAC's directives

Directorate General Audit Works (Federal), Islamabad has conducted a special audit of the accounts of Pakistan Medical and Dental Council during 2012-13 and Special Audit Report was printed in 2014-15. Results of audit conducted during 2014-15 have been reported to the PAC through Audit Report 2014-15. These Audit Reports are yet to be discussed by PAC.



## **14.4 AUDIT PARAS**

### **Irregularity and Non-Compliance**

#### **14.4.1 Irregular hiring of examination hall for National Examination Board (NEB) Exam without open competition - Rs 5.46 million**

Rule-12(2) of Public Procurement Rules, 2004, provides that all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

Audit noted that Pakistan Medical and Dental Council (PM&DC) paid an amount of Rs 5.46 million to M/s Hotel Margalla Islamabad during the financial year 2013-14 on account of acquiring examination hall (NEB Exam expense) without open competitive bidding which was violation of Public Procurement Rules.

Audit holds that the irregularity occurred due to weak financial controls.

Audit pointed out the matter in March 2015. The Council replied that tending process under PPRA was carried out in 2012 for conducting of NEB Exam, but the responsive bidder, M/s Paradise Complex, Islamabad did not possess the required facility for seating arrangements of 1800 candidates and afterwards on search M/s Hotel Margalla was found capable of having arrangements to adjust more than 3000 candidates. The Executive Committee in its meeting held on 9<sup>th</sup> March, 2012 approved to engage M/s Hotel Margalla to provide services of the examination hall.

The reply was not tenable because acquisition of services for NEB Exam without following procurement rules was irregular.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends fixing of responsibility against persons responsible for violation of PPRA Rules.

(DP. 4)

#### **14.4.2 Irregular recognition due to non-possession of Teaching Hospital and College Building by private Medical & Dental Colleges**

Rule-12 of the Medical & Dental Institution (recognition, eligibility, criteria for enhancement in annual admissions and accreditation standards) *under* heading Existing institution provides that “within three years of commencement of these Regulations, all existing recognized institutions shall fully conform to these regulations. Existing recognized medical institution established in rented buildings and not having own hospital shall build their own college building and a minimum of one hundred and fifty (150) bedded multidisciplinary hospitals out of the five hundred (500) beds requirement within this time. Any institution failing to do so shall be derecognized in the prescribed manner” notify vide Notification No. SRO-26(KE)/2012 dated Islamabad, the 5<sup>th</sup> January, 2012.

Audit noted that following twelve (12) Private Medical & Dental Colleges were recognized despite the fact that they did not have their own hospital and college buildings:

<b>S. No.</b>	<b>Name of College</b>
1.	Wah Medical College, Wah Cantt
2.	Altamash Institute of Dental Medicine, Karachi
3.	Peshawar Medical College Peshawar
4.	Bahria Medical College Karachi
5.	Foundation University Medical College Rawalpindi
6.	Jinnah Medical College Peshawar
7.	Continental Medical College Lahore

<b>S. No.</b>	<b>Name of College</b>
8.	Islamabad Medical & Dental College Rawalpindi
9.	Al-Razi Medical College Peshawar
10.	Margalla College of Dentistry Rawalpindi
11.	Federal Medical & Dental College, Islamabad
12.	Yusra Medical & Dental College, Islamabad

Audit holds that non-implementation of Regulation-2012 occurred due to inadequate oversight mechanism and lack of administrative controls.

Audit pointed out the matter in March 2015. The Council replied that Yusra Medical & Dental College, Islamabad got recognized in July, 2010 and at that time the college did not have its own 150 bedded teaching hospital and college building. Now the college has been shifted to its own building in Zaraj Society and has got its own 150 bedded hospital named as Yusra General Hospital, GT Road, Islamabad. In other cases the Council replied that the letters were written to the colleges regarding the requirement of 150 bedded teaching hospitals.

The reply was not tenable because the private medical and dental colleges not complying with Rule-12 of PM&DC Regulations, 2012 were not de-recognized by PM&DC.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends that PM&DC Regulations, 2012 be implemented in letter and spirit.

(DP. 6 & 11)

#### **14.4.3 Irregular recognition / running of Medical and Dental Colleges without fulfilling minimum eligibility criteria**

According to PM&DC ordinance 1962 and Regulation 2007 and 2012 made thereunder the minimum eligibility criteria is required to be

fulfilled for recognition of Medical & Dental Colleges is to get at least 75% scores against specific requirement of Legal, Financial, Infrastructure, Hospital and Academic facilities available in the college, failing to which the college shall be derecognized. Individual criterion is mentioned against each observation.

Audit examined record of following private medical and dental colleges:

S. No.	Name of Institution
1.	Frontier Medical & Dental College, Abbottabad
2.	Women Medical and Dental College, Abbottabad
3.	Islamabad Medical & Dental College, Islamabad
4.	Yusra Medical & Dental College, Islamabad
5.	Abbottabad International Medical & Dental College, Abbottabad
6.	Islamic International Medical College, Rawalpindi

It was observed that these institutions were recognized during 1996 (S. No. 1 to 4) and 2007 (S. No. 5 &6) for training of 100 MBBS and 50 BDS students annually, but minimum eligibility criteria was never fulfilled as the below- mentioned documents were neither found available in record nor produced to Audit on demand:

- i. Evidence of ownership of Land.
- ii. Drawing / Design for college and hospital buildings according to Laid down specification of the Council approved by a certified Architect and vetted by the building control Authority and subsequently certified as per specification with minimum required covered area of 100 MBBS and 50 BDS students.
- iii. Colleges did not possess their own college building
- iv. Ownership documents of 165 bedded own hospital was not available as per requirement, because as per *Intiqal* only 2 *Kanal* land transferred in the name of Women Medical &

Dental College, whereas as per *Fard* of land 3 *Kanal* 18 *Marlas* shown on the name of Women Medical College. It was not possible to construct 165 bedded hospital on 4 *Kanal* land.

- v. The Colleges and their hospitals were not vested in the name of company/trust or government.
- vi. As per inspection report dated 3<sup>rd</sup> September 2013 the faculty, infrastructure and hospital are still not upto the required level as per PM&DC criteria. Therefore, the Council did not approve the college for 100 students, as marks obtained 628 are less than minimum required 750 to qualify for recognition.
- vii. Evidence/inventory list of books and journals, proof of internet connectivity and purchase of required number of computers.
- viii. Evidence/inventory of necessary equipment for college and hospital.
- ix. Evidence of faculty registration certificate, along with appointment letters, income tax deduction/tax returns and cheques through which payments made to faculty.
- x. Evidence of fee (detail of all types of payment received including tuition, examination, donation, hostel, transport or any other) and bank statement.
- xi. Evidence of free education to five present students in private Medical / Dental colleges.

In absence of above mentioned minimum requirement for recognition/running of Medical and Dental colleges as per PM&DC Ordinance 1962 and subsequent amendments / regulations thereafter, the recognition / running of these colleges stood unjustified/ irregular. The colleges were not supposed to be recognized earlier by the PM&DC due to its gross deficiencies.

Audit further observed that Abbottabad International Medical & Dental College, Abbottabad and Islamic International Medical College, Rawalpindi were stopped on 22<sup>nd</sup> May 2013, to make admissions but these colleges admitted students in 2013-14 and again in 2014-15, which manifested the failure of PM&DC to implement its Ordinance and regulation thereunder in true spirit.

Audit holds that irregularity occurred due to ineffective internal control mechanism.

Audit pointed out the matter in March 2015. The Council replied that:

- i. Frontier Medical College was recognized in 1998 and at that time there was no requirement of documents. However, in order to increase number of seats, the said college was directed to establish Nursing College. The college was last inspected on 11<sup>th</sup> September, 2014 and after rectification of deficiencies, the Executive Committee in its meeting on 26<sup>th</sup> September, 2014, decided to recommend the continuation of recognition of the college.
- ii. As per orders of Honourable Supreme Court of Pakistan dated 15<sup>th</sup> December, 2006, the comprehensive inspection of Women Medical and Dental College, Abbottabad, was conducted on 26<sup>th</sup> July, 2007. On the basis of inspection report, the Council in its meeting held on 4<sup>th</sup> & 5<sup>th</sup> August, 2007 decided that college may be recognized for 100 MBBS admissions per year. However, on the basis of inspection on 17<sup>th</sup> June, 2013, Women College was stopped to further intake the students. The Women Medical College went into litigation against the decision.
- iii. Islamabad Medical & Dental College, Islamabad was re-inspected on 27<sup>th</sup> June, 2007 and it was recommended to recognize the institution for 50 students and Federal Government notified the institution on 13<sup>th</sup> August, 2007.

However, an inspection was also conducted by National Accountability Bureau, Islamabad on 17<sup>th</sup> March, 2014 which found the facilities inadequate and the institution was not recommended for 100 students.

- iv. The comprehensive inspections of Abbottabad International Medical College, Abbottabad and Islamic International Medical College, Rawalpindi were conducted on 7<sup>th</sup> February, 2008 and 5<sup>th</sup> September 1998 respectively. The Executive Committee in its meeting held on 2<sup>nd</sup> May, 2008 decided to re-inspect the Abbottabad College on their request. On the basis of re-inspection on 28<sup>th</sup> May, 2008 the Council in its meeting held on 2<sup>nd</sup> & 3<sup>rd</sup> August, 2008 recommended to the Federal Government for inclusion of the college in the First Schedule. The Federal Government notified the College on 1<sup>st</sup> September, 2008. However, due to gross deficiencies in the College, Inspection team visited the college on 17<sup>th</sup> May, 2013 but college authorities did not allow the inspection. The Executive Committee, on 19<sup>th</sup> May 2013, decided to issue show cause notice to the management of college and to stop further intake of students and gave one month's time to submit the report regarding their deficiencies. The decision of EC was communicated to college regarding admission stoppage on 22<sup>nd</sup> May, 2013.
- v. In case of Islamic International Medical College, Rawalpindi the Council unanimously approved to accord provisional recognition for a period of two years. However, it may be re-inspected after one year to see the progress made by the Trust in developing its own hospital. The college was notified by the Ministry of Health on 16<sup>th</sup> November, 2005. The comprehensive inspection of the college was conducted on 29<sup>th</sup> October, 2009. The inspection team recommended the college to admit 100 MBBS students annually.

The reply was not tenable because the Council recognized the colleges though these were not fulfilling the minimum criteria in 2007.

The deficiencies were not got rectified by the Council prior to approval. Later on, the Council decided to stop further intake of students by the college owing to deficiencies. The resource deficient medical colleges will graduate out semi-skilled medical students and subsequently, the medical practice of such graduates will negatively affect the health of peoples.

DAC meeting could not be convened despite best efforts made by Audit.

Audit recommends action against the person(s) responsible besides stern remedial measures must be adopted to rectify the deficiencies or derecognize these colleges.

(DP. 8, 9, 10, 12, 13)

### **Internal Control Weaknesses**

#### **14.4.4 Unjustified increase in tuition fee by PM&DC**

According to clause 10 related to Fee and Refunds of fee notification which is formulated sub-section (2) of section 33 of the PM&DC Ordinance, 1962 (XXXII of 1962), the Council in its 117<sup>th</sup> meeting on 8<sup>th</sup> Nov. 2010 has made the regulations which have been amended in 118<sup>th</sup> meeting of the Council held on 3<sup>rd</sup> April 2011 and then by committee authorized by the Council and approved by the Executive Committee under section 36(B) of the PM&DC Amendment Act, 2012.

Audit noted that Pakistan Medical & Dental Council (PM&DC) Islamabad allowed unjustified / exorbitant fee to be charged by all private medical and dental colleges.

Audit observed that PM&DC caped only tuition fee while colleges are already charging hefty dues ranging from Rs 1.0 million to Rs 1.5 million per annum for local students and above Rs 1.8 million for foreign students. PM&DC must justify the causes of increase in tuition fee as there was no control over other kind of fee and charges imposed on the poor students.



Audit pointed out the matter in March, 2015. The Council replied that Pakistan Medical & Dental Council being the competent forum increased salaries of medical professionals, consumption of demonstration consumables in class rooms and tuition fee after evaluation of the inflation rates and approval of the Executive Committee/ Council.

The reply was not tenable because increase in already exorbitant tuition fee was unjustified. PM&DC a medical regulatory authority was not meant to safeguard the interest of the public medical and dental colleges by compromising the career of poor and middle class students.

DAC meeting could not be convened despite best efforts made by this office.

Audit recommends action against the person(s) responsible for unjustified increase in tuition fee.

(DP. 2)

#### **14.4.5 Enhancement of admission seats in various private medical and dental colleges at the cost of national health**

Rule 12 of the Medical & Dental Institution (recognition, eligibility, criteria for enhancement in annual admissions and accreditation standards) under heading existing institution provides that “within three years of commencement of these Regulations, all existing recognized institutions shall fully conform to these regulations. Existing recognized medical institution established in rented buildings and not having own hospital shall build their own college building and a minimum of one hundred and fifty (150) bedded multidisciplinary hospitals out of the five hundred (500) beds requirement within this time. Any institution failing to do so shall be derecognized in the prescribed manner” notify vide Notification No. SRO-26(KE)/2012 dated Islamabad, the 5<sup>th</sup> January, 2012.

Audit noted that Multan Medical & Dental College, Avicenna Medical College, Lahore, Rashid Latif Medical College, Lahore and Behria Medical and Dental College, Karachi did not fulfill the minimum eligibility criteria for enhancement of seats and increased the seats of MBBS students from 100 to 150.

Audit holds that enhancement of seats in private medical and dental colleges, being run with inadequate faculty and without mandatory requirement of hospital with small buildings for training of the students was not only an illegal benefit to the owners of the institutions but also have severe adverse impact on public health. These private medical and dental colleges were charging extraordinary fees from the poor students but producing semi-skilled medical graduates, which is a continuous threat on public health.

Audit pointed out the matter in March 2015. The Council replied that initially the inspection reports showed satisfaction but later on, deficiencies were found.

The department's reply was not tenable. The Council gave undue favor to the college by enhancing seats of MBBS students from 100 to 150 per annum without getting fulfilled its own devised criteria. Enhancing seats of resource deficient college is tantamount to poor training of medical students and subsequently ill-equipped medical graduates will play havoc with the lives of people.

DAC meeting could not be convened despite best efforts made by this office.

Audit recommends fixing of the responsibility against the persons at fault involving in violation of PM&DC regulations.

(DP. 7)

## Annexure-1: MFDAC

Seven hundred fifty-one (751) Proposed Draft Paras of under-mentioned departments/organizations have been placed in MFDAC for further follow up and compliance on the part of Principal Accounting Officers which are to be complied through Departmental Accounts Committee/verification within the year. In case of non-compliance and after further improvement, paras deemed appropriate will be included in next Audit Report.

S. No.	Name of Department/Organization	No. of PDPs
1.	Capital Development Authority	184
2.	Civil Aviation Authority	130
3.	National Highway Authority	243
4.	Pakistan Public Works Department	101
5.	Estate Office	13
6.	Federal Government Employees Housing Foundation	4
7.	National Construction Limited	1
8.	Pakistan Housing Authority Foundation	0
9.	Evacuee Trust Property Board	5
10.	Frontier Corps	9
11.	Pakistan Coast Guards	2
12.	Pakistan Rangers	3
13.	Higher Education Commission	13
14.	Workers Welfare Fund/Boards	40
15.	Pakistan Medical and Dental Council	3
	<b>Total</b>	<b>751</b>

## **Annexure-2: Comments on Internal Controls**

Internal controls are the set of rules, regulations, technical memos, policy instructions and standard operating procedures which have been prescribed by the departments/organizations to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and timely preparation of reliable financial information.

The management of CDA, CAA, NHA, Pak. PWD/Estate Office, FGEHF, NCL, PHA, ETPB, Frontier Corps, Pakistan Rangers, HEC, WWF/Bs, and PM&DC did not take adequate measures for the effective implementation of internal controls in their respective organizations. Audit observed recurrence of many irregularities, reported over the last many years, generally stemming either from absence of an effective oversight mechanism or the weak implementation of internal controls. The major recurring irregularities are:

- i. Non-adherence to Public Procurement Rules while procuring works, services, goods, awarding concessions, leases, etc.
- ii. Execution of works over and above the provisions of approved PC-I without approval of deviation by competent forum
- iii. Non-adherence to Pakistan Engineering Council's standard procedure and formula for price adjustments
- iv. Non-obtaining insurance policies from the contractors to safeguard works, equipment, labour, etc.
- v. Non-recording detailed measurements of work done in Measurement Books
- vi. Grant of additional Mobilization Advance to contractors through post-bid amendment

The organizations did not avail the services of their internal audit wings to create effective internal controls environment. The workload of external audit could have been reduced by utilizing existing internal audit capacity of the departments in addition to the enforcement of financial discipline. It is proposed that prior to the start of external audit, the internal audit reports should be made available to the external auditors help them in delineating the potential audit risk areas. Hence, Audit emphasizes to enhance the role of internal audit wings of these Ministries/organizations and suggests establishment of independent internal audit wings under the direct supervision/control of PAOs/ heads of the departments.

Significant breach of internal controls included:

- Weak internal controls often result in loss to government. Such cases occurred due to failure of laid down controls like acquisition/safeguard of assets, performance reviews, monitoring process, financial and administrative delegation of powers, information technology system, pre-audit checks, internal audit, maintenance of record, budgeting, accounting process, reconciliation, tendering for grant of lease/award of concessions and works, invoking of contract clauses/specifications, etc.
- There are cases of non-transparent bidding process, award of works/consultancy without tendering, non-retrieval of encroached land, execution of projects without approval of ECNEC, non-insurance of works, post-bid amendments to the contracts, undue financial aid to contractors, irregular appointments, defective execution of work, improper planning, payments without recording detailed measurements of work done in MBs, wasteful expenditure, etc.
- There are cases of overpayment due to allowing higher/incorrect rates, allowing excessive quantities, non-deduction of rebate, separate payment for inbuilt items, allowing inadmissible premium, incorrect escalation, etc.

- During the audit on a test check basis, cases of non-recovery on account of licence fee, commercialization charges, rent, penalty, taxes, risk and cost charges, cost of plots, advance, mobilization advance, etc. were noticed which have been highlighted in this Audit Report.

**Annexure-A****Ref. to Para 4.4.6****Statement of irregular expenditure without approval by the competent forum**

<b>S. No.</b>	<b>DP No.</b>	<b>Project/ Formation</b>	<b>Amount (Rs in million)</b>
1.	25	General Manager Balochistan NHA Khuzdar (Lasbela Unit) two Bridge construction works (BC-KZ-14-006) and (BC-KZ-14-007)	13.37
2.	79	Construction of Sultan Bahoo Bridge over River Chenab (Approach road, drainage and erosion works at Garh Maharaja side)	318.61
3.	95	Construction of Additional Carriageway of Indus Highway (N-55) Sehwan-Khairpur Nathan Shah-Ratodero (JICA Loan PK P-55)	96.90
4.	295	General Manager (Construction) Balochistan, National Highway Authority, Quetta Construction of left over Works of Gwadar Ratodero Road, Project, Gwadar Turbat, Section-I, Package-II-A, II-B & Section-II-A (M-8)	214.75
5.	334	Project Director Construction of Flyover Project, Khiali Chowk Intersection Gujranwala Bypass (N-5) Phase-I	405.63
6.	339	G.M Construction (Punjab-North) Construction of Shaheed Benazir Bhutto Bridge Over Nishtar Ghat Package-III	71.33
7.	353	Project Director, Alpuri-Besham N-90, National Highway Authority	48.88
8.	370	General Manager (M-1) Islamabad-Peshawar Motorway Protection Work PW-M1-2012-13/05	9.42
9.	382	General Maintenance Punjab (South) NHA Multan PM-KM 679-717	61.18
10.	384	G.M Maintenance Punjab (South) NHA Multan PM- Km667-679	34.17

<b>S. No.</b>	<b>DP No.</b>	<b>Project/ Formation</b>	<b>Amount (Rs in million)</b>
11.	392	General Manager Maintenance Punjab (South) NHA Multan PM-2012-13-PS-03	275.68
12.	411	General Manager Maintenance (M-2, M-3) Kallar Kahar RM-304-14 KM 39~52	2.48
<b>Total</b>			<b>1,552.40</b>



**Annexure-B**

Ref to Para 4.4.7

**Statement showing award of works to Un-qualified/Defaulter Contractors**

<b>S. No.</b>	<b>Name of Toll Plaza</b>	<b>Guaranteed Bid Price</b>	<b>Reserve price</b>	<b>Revenue Receipt FY-2013-14</b>
1	Karak – N-55	93,768,000	95,000,000	78,824,415
2	Vehova – N-55	32,237,000	36,000,000	41,063,183
3	Qutabpur – N-55	168,077,000	175,000,000	173,903,796
4	Rojhan – N-55	43,484,000	45,000,000	52,861,442
5	Kandhkot – N-55	43,208,000	47,000,000	52,588,702
6	Shikarpur – N-55	46,140,000	55,000,000	58,313,216
7	Okara – N-5	301,200,000	297,000,000	277,285,309
8	Pattoki – N-5	337,000,000	335,000,000	316,633,081
9	Chenab – N-5	165,500,000	169,000,000	358,161,478
10	Ghazi Ghat – N-70	117,510,000	122,000,000	114,044,207
	<b>Total</b>	<b>1,348,124,000</b>	<b>1,376,000,000</b>	<b>1,523,678,829</b>

**Annexure-C**

Ref to Para 4.4.20

**Overpayment due to higher rates of non-BoQ items****(Amount Rs)**

Sl. No.	Item No.	Quantity measured	Rate paid	Rate Admissible	Excess Rate Paid	Amount
1	<b>(203b)</b> ACBC Class B	13,579 CM	19,158.48 (SR 2014)	14,844.52 (SR 2011)	4,313.96	58,579,262
2	<b>(608h2)</b> Pavement Marking in Reflective TP paint	64,280 CM	165.73 (SR 2014)	146.37 (SR 2011)	19.36	1,244,461
3	<b>(205b)</b> Asphaltic Open Graded Plant mix crack relief layer	2,661.428 CM	18038.17 (SR 2014)	14572.39 (SR 2011)	3465.78	9,223,924
4	<b>Cold Milling 0 to 50 mm</b>	63,247	183.85 (SR 2014)	147.69 (SR 2011)	36.16	2,287,012
<b>Total</b>						<b>71,334,659</b>
<b>Less 5% below</b>						<b>3,566,733</b>
<b>Net Overpayment</b>						<b>67,767,926</b>

**Annexure-D**  
**Ref to Para 4.4.26**

**Statement showing non-compliance of DAC directives  
(Audit Year 2013-14)**

<b>S. No.</b>	<b>PDP No.</b>	<b>Formation</b>	<b>Subject of the Para</b>	<b>Amount(Rs in Million)</b>	<b>DAC Directives</b>
1	312	GM Punjab (North) Lahore NHA	Overpayment due to separate payment of traffic diversion premium on market items	5.06	During DAC meeting held on 26-27 <sup>th</sup> November, 2013 DAC directed to conduct Inquiry at MOC level for fixing of responsibility and recovery of the amount involved within 15 days.
2	241	NHIP Highway Rehabilitation Project C-03	Non-recovery of cost damage works	20.83	During DAC meeting held on 26-27 <sup>th</sup> November, 2013 DAC directed NHA to pursue the matter vigorously for recovery of the amount involved from the contractor.
3	141	Construction of 4-Lane Motorway Khanewal Multan (M-4 Extension) 57 KM (IDB loan Pak 125)	Irregular payment of price escalation	8.04	During DAC meeting held on 26-27 <sup>th</sup> November, 2013 DAC Directed NHA to effect recovery and get it verified form audit within 07 days.
4	121	GM (B & A) MHA Islamabad Unfunded Project	Inadmissible payment on account of dewatering during execution of work	1.97	During DAC meeting held on 26-27 <sup>th</sup> November, 2013 DAC Directed NHA to effect recovery and get it verified form audit within 07 days.
5	158	PD construction of road from Gharo to Keti bunder (Package-I) Gharo to Mirpur sakro	Overpayment	0.87	During DAC meeting held on 26-27 <sup>th</sup> November, 2013 DAC Directed NHA to effect recovery

S. No.	PDP No.	Formation	Subject of the Para	Amount(Rs in Million)	DAC Directives
					and get it verified form audit within 07 days.
6	178	GM (M-I) Burhan	Overpayment due to allowing extra haulage of crush aggregate from Margalla quarry	2.87	During DAC meeting held on 26-27 <sup>th</sup> November, 2013 DAC Directed NHA to effect recovery and get it verified form audit within 07 days.
7	176	GM (M-I) Burhan	Un-justified payment	3.15	During DAC meeting held on 26-27 <sup>th</sup> November, 2013 DAC Directed NHA to effect recovery and get it verified form audit within 15 days.
8	128	PD construction of bridge over Indus from Amir to Qazi Ahmed (N-5)	Overpayment due to double measurement	2.57	During DAC meeting held on 26-27 <sup>th</sup> November, 2013 DAC Directed NHA to effect recovery and get it verified form audit within 07 days.
9	130	PD construction of bridge over Indus from Amir to Qazi Ahmed (N-5)	Overpayment	1.88	During DAC meeting held on 26-27 <sup>th</sup> November, 2013 DAC Directed NHA to effect recovery and get it verified form audit within 07 days.
10	112	PD Makran coastal highway project NHA Karachi	Overpayment due to non-deduction of structural excavation from the quantity of embankment	1.79	During DAC meeting held on 26-27 <sup>th</sup> November, 2013 DAC Directed NHA to effect recovery and get it verified form audit within 07 days.
11	113	PD Makran coastal highway project NHA Karachi	Overpayment due to separate payment of	1.87	During DAC meeting held on 26-27 <sup>th</sup> November, 2013 DAC Directed NHA

S. No.	PDP No.	Formation	Subject of the Para	Amount(Rs in Million)	DAC Directives
			excavation for riprap		to effect recovery and get it verified form audit within 07 days.
12	111	PD Makran coastal highway project NHA Karachi	Overpayment due to excavation of item beyond the final re-appropriation order	6.05	During DAC meeting held on 26-27 <sup>th</sup> November, 2013 DAC Directed NHA to effect recovery and get it verified form audit within 07 days.
13	06	Construction of Gwadar Ratodero Road Project	Non-recovery of cost of obtained from excavation hard rock	21.59	During DAC meeting held on 26-27 <sup>th</sup> November, 2013 DAC Directed NHA to effect recovery and get it verified form audit within 15 days.
14	05	Construction of Gwadar Ratodero Road Project	Non-recovery of cost of disposal of excavated hard medium and soft rock material included in the rates	135.91	During DAC meeting held on 26-27 <sup>th</sup> November, 2013 DAC Directed NHA to effect recovery and get it verified form audit within 15 days.
15	79	GM (Maintenance) NHA Abbottabad	Duplicate payment on account of maintenance of Thakot Raikot Section of Karakorm Highway	7.53	During DAC meeting held on 26-27 <sup>th</sup> November, 2013 DAC Directed NHA to effect recovery and get it verified form audit within 15 days.
16	84	GM (Maintenance) NHA Abbottabad	Duplicate payment on account of diversion of Nallah	1.98	During DAC meeting held on 26-27 <sup>th</sup> November, 2013 DAC Directed NHA to effect recovery and get it verified form audit within 07 days.
17	66	PD construction of	Overpayment	33.49	During DAC

S. No.	PDP No.	Formation	Subject of the Para	Amount(Rs in Million)	DAC Directives
		Additional Carriageway of Indus Highway (N-55) Sehwan-Retodero Section (200 Km) NHA Islamabad (Load PK-P55)	due to payment of escalation on Bill No. (General Item)		meeting held on 26-27 <sup>th</sup> November, 2013 DAC Directed NHA to effect recovery and get it verified form audit within 07 days.
18	67	PD construction of Additional Carriageway of Indus Highway (N-55) Sehwan-Retodero Section (200 Km) NHA Islamabad (Load PK-P55)	Overpayment due to separate payment of steel liner in piles of bridge	26.12	During DAC meeting held on 26-27 <sup>th</sup> November, 2013 DAC Directed Member operation and Member construction NHA HQ to prove into the matter and submit a report to Audit and Ministry of Communications within one month.
19	191	Project Director Construction of Khushall Garh Bridge Kohat	Overpayment due to non-adherence to PEC price adjustment procedure	2.69	During DAC meeting held on 26-27 <sup>th</sup> November, 2013 DAC directed NHA to effect recovery and get it verified form audit within one month.
<b>Total</b>				<b>286.26</b>	

**Annexure-E**  
**Ref to Para 4.4.26**

**Statement showing non-compliance of DAC directives (Audit Year 2014-15)**

S. No.	PDP No.	Formation	Subject of the Para	Amount (Rs in million)	DAC Directives
1	2	GM Lyari Expressway Project, Karachi	Undue burden on the authority in shape of payment of secured advance Rs 354.212 million as well as loss of Rs 48.055 million	354.21	During DAC meeting held on 7 <sup>th</sup> January, 2015 General Manager concerned explained that due to change in design the material was not utilized at site so recovery of secured advance was not made as yet. The committee expressed serious concern over this negligence and delay and directed the General Manager to identify the project on which this material can be used, in one week. DAC pended the Para
2	31	GM Revenue	Non-recovery of rental charges for Filling/CNG stations and amenities for use of NHA Right of way	701.59	During DAC meeting held on 20-21 <sup>st</sup> November, 2014 DAC Directed NHA to get the record verified from audit as mentioned in the reply within 15 Days
3	113	GM (Region) Khyber Pakhtunkhwa Peshawar	Overpayment due to double measurement of same RD in two contracts	2.45	During DAC meeting held on 20-21 <sup>st</sup> November, 2014 Authority intimated that recovery is being calculated and will be intimated to Audit. DAC directed to get the recovery verified.
4	114	GM (Region) Khyber Pakhtunkhwa Peshawar	Overpayment due to allowing excessive weight of an item of work beyond detailed estimate	2.70	During DAC meeting held on 20-21 <sup>st</sup> November, 2014 DAC Directed to effect due recovery of Rs 1.766 million and get it verified from audit.

S. No.	PDP No.	Formation	Subject of the Para	Amount (Rs in million)	DAC Directives
5	134	GM (Construction) Khyber Pakhtunkhwa Peshawar	Overpayment on account of escalation	2.139	During DAC meeting held on 20-21 <sup>st</sup> November, 2014 Authority intimated that clarification is being obtained from Fazal Steel Limited and recovery if any will be effected. DAC directed to get the relevant record verified from audit.
6	162	GM (IHP) construction of Additional Carriageway of Indus Highway (N-55) sehwan-Ratodero Section	Overpayment due to measurement of excess width of prime coat	1.36	During DAC meeting held on 20-21 <sup>st</sup> November, 2014 The Authority explained that the measurement was made as per cross sections. The DAC did not accept the point of view of NHA and directed to effect recovery from the next IPC.
7	164	GM (IHP) construction of Additional Carriageway of Indus Highway (N-55) sehwan-Ratodero Section	Overpayment due to measurement of excess width of bituminous tack coat	1.99	During DAC meeting held on 20-21 <sup>st</sup> November, 2014 the authority explained that the matter will be taken up with the consultants for revalidation of indemnity bond. The DAC did not accept the explanation of the Authority and directed to conduct fact finding inquiry for fixing responsibility. The DAC nominated GM (M&I) to conduct fact finding inquiry. The DAC further directed NHA to submit revised reply within 7 days.
8	167	GM (GB) construction of Shtial-Thor	Non-recovery of mobilization advance	261.08	During DAC meeting held on 20-21 <sup>st</sup> November, 2014 NHA



S. No.	PDP No.	Formation	Subject of the Para	Amount (Rs in million)	DAC Directives
		Nullah Bypass (GB)			informed that out of total mobilization advance of Rs 344.620 million an amount of Rs 239.306 million was recovered and Rs 105.314 million were still outstanding. DAC directed NHA to expedite balance and get it verified from audit.
9	198	GM (GB) Realignment of KKH at Barrier Lake Attabad Hunza NHA	Unnecessary provision of remunerations	6.96	During DAC meeting held on 20-21 <sup>st</sup> November, 2014 NHA admitted recovery. DAC directed NHA to effect the recovery and get it verified from audit.
10	218	GM, Flood Emergency Reconstruction Project, NHA	Overpayment due to non-utilization of available material	1.59	During DAC meeting held on 20-21 <sup>st</sup> November, 2014 DAC directed NHA to recover the amount involved and get it verified from audit.
11	219	GM, Flood Emergency Reconstruction Project, NHA	Non/Less-execution of items of work carrying lesser rates	6.79	During DAC meeting held on 20-21 <sup>st</sup> November, 2014 NHA explained that the items of work as pointed out by audit were executed for less quantity due to site requirement. DAC was not convinced and held that contractor was favoured by reducing the quantity of item against which he quoted the acceptance of unreasonable rates as irregular. DAC directed NHA to reevaluate bids in the light of executed quantities of work and make recovery of difference of rates and get the relevant record verified from audit.

S. No.	PDP No.	Formation	Subject of the Para	Amount (Rs in million)	DAC Directives
12	244	GM Widening/ Improvement of N-85 Hoshab-Nag-Basima Surab Road (459 Km), Khuzdar Panjgoor	Inadmissible payment on account of rectification defective work	18.547	During DAC meeting held on 18-19 <sup>th</sup> December, 2014 DAC directed NHA to get the defective work rectified at the contractor's expense, duly vetted by the member (construction) and supporting record be got verified from audit.
13	253	GM Widening/ Improvement of N-85 Hoshab-Nag-Basima Surab Road (459 Km), Khuzdar Panjgoor	Overpayment due to calculation mistake	2.931	During DAC meeting held on 18-19 <sup>th</sup> December, 2014 NHA responded that overpayment would be recovered in upcoming IPCs. DAC directed NHA to get the relevant record verified from audit.
14	324	GM Construction Khuzdar	Non-recovery of mobilization advance	292.26	During DAC meeting held on 18-19 <sup>th</sup> December, 2014 Member (F) and Member (West) Quetta will hold a meeting on the issues of M-8 and send recommendation to chairman NHA. DAC pended the para
15	334	GM Construction Khuzdar	Non-recovery of secured advance and interest accrued thereon	41.41	During DAC meeting held on 18-19 <sup>th</sup> December, 2014 NHA explained that last IPC was yet to be paid to the contractors and secured advance would be recovered. DAC directed NHA to effect recovery and get it verified from audit.
16	416	GM (National Highway Improvement Programme),	Non-recovery of cost of material supplied to the contractor	65.87	An advance amounting to Rs 65.871 million was granted to the contractor by NHA for bitumen but

<b>S. No.</b>	<b>PDP No.</b>	<b>Formation</b>	<b>Subject of the Para</b>	<b>Amount (Rs in million)</b>	<b>DAC Directives</b>
		NHA, Islamabad			recovery thereof is outstanding. NHA replied that recovery will be adjusted in final bill, but no progress towards recovery has been reported.
<b>Total</b>				<b>1,763.88</b>	

**Annexure-F**  
Ref to Para 4.4.34

**Details of overpayments on account of price escalation**

S. No.	DP No	Project/ Formation	Amount (Rs in million)	Remarks
1.	337	Construction of Shaheed Benazir Bhutto Bridge Over River Indus with Approach Roads and Guide Banks Linking N-5 with N-55 package-III	4.32	Weightage/Cost element less than 5%
2.	294	General Manager (Construction) Balochistan, NHA Gwadar Ratodero Road Project (M-8) Section-IV (Khuzdar Shahdakt), Package-IV	344.96	Weightage/Cost element less than 5%
3.	232	Rehabilitation/ Reconstruction of Hala-Moro Section N-5, Rehabilitation of Chakdara Bridge at KM 88 (N-45)	3.28	Weightage/Cost element less than 5%
4.	125	Construction of Motorway (M-4-Extension) from Khanewal to Multan (57 KM)	59.24	Weightage/Cost element less than 5%
5.	96	Construction of Additional Carriageway of Indus Highway (N-55) Sehwan-Khairpur Nathan Shah-Ratodero	50.87	Weightage/Cost element less than 5%
6.	18	General Manager (Sindh South) NHA Karachi (Two works - Contract No.BR-2012-13-SS-01&02)	1.85	Weightage/Cost element less than 5%
7.	14	General Manager (Sindh South) NHA Karachi Construction of Right Bank Outfall Drain (RBOD) Bridge on Hyderabad Bypass between Km 150-151, N-5	4.88	Weightage/Cost element less than 5%
		<b>Sub-Total S. No. 1 to 7</b>	<b>469.40</b>	
8.	301	General Manager (Construction) Balochistan, NHA, Quetta	29.95	Escalation paid on non-BOQ items

S. No.	DP No	Project/ Formation	Amount (Rs in million)	Remarks
		Gwadar Ratodero Road Project (M-8) Section-IV (Khuzdar Shahdadkot), Package-V		
9.	292	General Manager (Construction) Balochistan, NHA, Quetta Gwadar Ratodero Road Project (M-8) Section-IV (Khuzdar Shahdadkot), Package-III	332.74	Escalation paid on non-BOQ items
10.	245	Rehabilitation of Mansehra-Naran-Jalkhad-Chillas Road (N-15) NCB-05 Package-II: Mahandri to Naran (Km 89 to Km 119)	2.23	Escalation paid on non-BOQ items
11.	302	General Manager (Construction) Balochistan, NHA, Quetta Gwadar Ratodero Road Project (M-8) Section-IV (Khuzdar Shahdadkot), Package-V	26.55	Escalation paid on market rate items
		<b>Sub-Total S. No. 8 to 11</b>	<b>391.47</b>	
12.	299	General Manager (Construction) Balochistan, Quetta Up-gradation, Widening and Construction of Surab-Basima-Nag-Panjgoor-Hoshab Road Project (Section III-A&B N-85)	76.30	Escalation paid on inadmissible water charges
13.	300	General Manager (Construction) Balochistan, Quetta Gwadar Ratodero Road Project (M-8) Section-IV (Khuzdar Shahdadkot), Package-III	73.54	Escalation paid on inadmissible skilled labour
14.	160	Project Director Faisalabad-Khanewal Motorway Project (M-4) Package-1 Faisalabad-Gojra Section (54 KM)	10.06	Escalation paid on items under Bill No. 7

S. No.	DP No	Project/ Formation	Amount (Rs in million)	Remarks
15.	313	General Manager (Construction) Balochistan, NHA, Quetta Up-gradation, Widening and Construction of Surab-Basima- Nag-Panjgoor-Hoshab Road Project (Section III-A&B N- 85)	3.04	Escalation paid on provisional sum items
		<b>Sub-Total S. No. 14 to 15</b>	<b>13.10</b>	
16.	333	General Manager (Construction) NHA, Lahore (Flyover Khiayali Bypass and Shaheed Banazir Bhutto Bridge over River Indus)	51.75	Price escalation paid on material not consumed during IPC period.
17.	303	General Manager (Construction) Balochistan NHA, Quetta Gwadar Ratodero Road Project (M-8) Section-IV (Khuzdar Shahdaskot), Package-III	26.55	Enhancement of Factor "C" through post bid change
18.	314	General Manager (Construction) Balochistan, NHA, Quetta Gwadar Ratodero Road Project (M-8) Section-IV (Khuzdar Shahdaskot), Package-V	3.47	Escalation on cement by applying current rates of source other than approved
19.	175	Lowari Tunnel Project NHA Dir	17.68	Escalation paid on steel rates including GST
		<b>Sub-Total S. No. 18 &amp; 19</b>	<b>21.15</b>	
		<b>Grand Total</b>	<b>1,123.26</b>	

**Annexure-G**  
Ref to Para 4.4.35

**Statement of non-adjustment on account of price de-escalation**

<b>S. No.</b>	<b>DP No.</b>	<b>Project/ Formation</b>	<b>Amount (Rs in million)</b>	<b>Remarks</b>
1.	296	General Manager (Construction) Balochistan, NHA (Construction of left over Works of Gwadar Ratodero Road, Project, Gwadar Turbat, Section-I, Package-II-A, II-B & Section- II-A (M-8)	91.22	De-escalation not recovered
2.	231	Rehabilitation/Reconstruction of Hala-Moro Section N-5 (South Bond) Section-I,II and III (KM 214+700 and 296+700 = 82 Km)	23.18	De-escalation not recovered
3.	124	Construction of M-4 Extension, Khanewal-Multan Section ( 57 Km)	68.24	De-escalation not recovered
4.	75	Construction of River Training & Protection Works (Guide Banks, Gunda Bunds and Cunette) of Shaheed Benazir Bhutto Bridge over River Indus connecting Chachran Sharif with KotMithan	22.14	De-escalation not recovered
5.	72	Construction of approach road from Kot Mithan to N-55 (from Km 23+000 to Km 31+094) of Shaheed Benazir Bhutto Bridge over River Indus connecting Chachran Sharif with Kot Mithan	14.28	De-escalation not recovered
6.	2	Construction of Shatial – Thor Nullah Bypass ((Relocation of KKH) including link road to existing KKH)	7.58	De-escalation not recovered
<b>Total</b>			<b>226.64</b>	

**Annexure-H**  
**Ref to Para 4.4.37**

**Detail regarding non-imposition of liquidated damages**

<b>DP No.</b>	<b>Name of Work</b>	<b>Contract Amount (Rs in million)</b>	<b>Date of Start</b>	<b>Planned Date of Completion</b>	<b>Time overrun</b>	<b>LD (Rs in million)</b>
27	General Manager (Balochistan) Khuzdar Periodic Maintenance Work (PM-2012-13-BS-03) on route N-25 Balochistan to M/s NK & Co	84.97	25.12.2014	24.12.2014	6 Months	8.50
37	GM(Construction), KPK, Peshawar Takht Bhai Flyover Project on N-45 awarded to M/s RMC Construction company	582.12	7.7. 2012	May, 2015	2 months	58.21
47	General Manager (Maintenance) Khyber Pakhtunkhwa, NHA, Peshawar, Two Periodic Maintenance PM-2013-14-KP-07 and KP-08 on N-95 (M/s Akhunzada Fazal Jamil & M/s Abdullah Khan	95.16	29.08.2014	28.02.2015	4 Months	9.52
		146.45	24.09.2014	15.03.2015	3-1/2 months	14.64
49	General Manager (Maintenance) Khyber Pakhtunkhwa, NHA, Peshawar Periodic Maintenance PM-2013-14-KP-09 (N-45) M/s Abdullah Khan & Co.	105.48	23.09.2014	15.03.2015	03 Months	10.55
81	Construction of	2,893.00	25.06.2010	06.03.2012	1-1/2 to	289.30



DP No.	Name of Work	Contract Amount (Rs in million)	Date of Start	Planned Date of Completion	Time overrun	LD (Rs in million)
	Sultan Bahoo Bridge over River Chenab and allied work (Six works P-I, II, III, Flood Bund, J-Spur, Garh Maharaja and Shorkot)		to 12.06.2013	to 08.03.2014	3 years	
263	Up-gradation/ conversion, relocation, re-installation and commissioning of 08 Nos equipment from HSWIM to SSWIM at different location on Lahore-Islamabad Motorway M-2"	16.10	April 2008	August 2008	6-1/2 Years	1.61
332	General Manager Construction National Highway Authority, Lahore (02 works – Syed wala Bridge, Shaheed Benazir Bhutto Bridge P-III)	829.33	1.3.2012	1.9.2013	1 year 10 months	82.93
		593.42	21.8.2010	May 2011	4 years 1 month	59.34
428	National Highway Rehabilitation Project N-5 (Turnol-Chablat 57KM) contract-9	1,193.77	July 2005	5.3.2013	2 years 4 months	119.38
	<b>Total</b>	<b>6,539.80</b>				<b>653.98</b>

**Annexure-I**  
**Ref to Para 5.4.2**

**Non-maintenance of Measurement Book**

S. No.	Name of Works	Amount (Rs in million)
1.	Construction of Federal Judicial Academy (Phase-II) at H-8/4 Islamabad	638.00
2.	Construction of office building for NAB HQ G-5, Islamabad	256.45
3.	Construction of Federal Judicial Academy (Phase-II) SH: HVAC Works	158.42
4.	Construction of Federal Judicial Academy (Phase-II) SH: Remaining / additional E/M works	33.01
5.	Construction of Federal Tribunal/Courts Complex at Hayatabad Peshawar	378.68
<b>Total</b>		<b>1,464.56</b>

**Annexure-J**  
**Ref to Para 5.4.5**

**Non-revalidation of performance and advance payment guarantees**

S. No.	Name of Division	Name of work	Validity (upto)	Amount (Rs in million)	Remarks
1.	C E&M-I, Islamabad	Construction of Statistics Division, Islamabad (SH- Installation of lifts)	23.05.2013	2.50	Performance Guarantee
2.	Stone & Workshop Division, Islamabad	Construction of new Secretariat Block SH: Diesel Generating Set	Not provided	11.29	-do-
		Construction of new Secretariat Block SH: HVAC (Part-II)	Not provided	19.450	-do-
		Construction of new Secretariat Block (SH: Lift Works)	Not provided	22.47	-do-
		Construction of Federal services Tribunal, Islamabad	Not provided	1.07	-do-
		Construction of Federal services Tribunal, Islamabad	Not provided	0.82	-do-

S. No.	Name of Division	Name of work	Validity (upto)	Amount (Rs in million)	Remarks
		(SH: Diesel Generating Set)			
		Construction of new Secretariat Block SH: Diesel Generating Set	17.07.2015	46.54	Advance Payment
3.	CCD-V, Islamabad	Dualization of Mandra-Chakwal Road	Not provided	4.19	Performance Guarantee
<b>Total</b>				<b>108.33</b>	

**Annexure-K**  
**Ref to Para 5.4.12**

**Non-obtaining of insurance policies**

(Rs in million)

DP No.	Name of Division	Name of Project	Amount	Premium (1%)
02	C&M-II, Lahore	Construction of 2 <sup>nd</sup> Floor at Sheikh Zayed Hospital (HVAC), Lahore	87.602	0.876
19	Central E&M-III, Islamabad	Construction of Federal Judicial Academy Phase-II, (HVAC, Lift & additional E&M works	226.27	2.26
59	Store Workshop Division, Islamabad	Eight (08) different works	658.07	6.59
88	PCD-II, Islamabad	Construction of Hostel Building for 100 persons at National Training Bureau (NTB) Complex at H-9 Islamabad	130.91	1.30
150	CCD-III, Quetta	Construction of Officers Mess, Bachelor Lodge in the Premises of NAB(B) Complex Shara-e-Gulistan Quetta Cant and	39.21	0.39
	CCD-VIII, Quetta	Construction of New Office accommodation and Over Head Water Tank in premises of FBR Complex at Spiny Road, Quetta	32.11	0.32
<b>Total</b>			<b>1,086.57</b>	<b>10.86</b>