



**SPECIAL AUDIT REPORT  
OF  
NORTHERN AREAS TRANSPORT  
CORPORATION (PVT) LIMITED  
GOVERNMENT OF GILGIT-BALTISTAN**

**AUDIT YEAR 2021-22**

**AUDITOR-GENERAL OF GILGIT-BALTISTAN**



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## **ABBREVIATIONS AND ACRONYMS**

BoD	Board of Directors
CPF	Contributory Provident Fund
DAC	Departmental Accounts Committee
DAG GB	Department of Auditor General of Gilgit-Baltistan
DDO	Drawing & Disbursing Officer
DMD	Deputy Managing Director
EC	Election Commission
ERE	Employee Related Expenditure
GB	Gilgit-Baltistan
GFR	General Financial Rules
GM	General Manager
ISSAIs	International Standards for Supreme Audit Institutions
MFS	Mountain Filling Stations
NATCO	Northern Area Transport Corporation
OMC	Oil Marketing Companies
NAB	National Accountability Bureau
PPRA	Public Procurement Regulatory Authority
SOP	Standard Operating Procedure



## **PREFACE**

The Auditor-General of Gilgit-Baltistan conducts audit subject to Section 98(4) of the Government of Gilgit-Baltistan Order, 2018 read with Section 9 of the Auditor General of Gilgit-Baltistan (Functions, Powers and Terms and Conditions of Service) Act, 2012. Special audit on the accounts of Northern Area Transport Corporation (Pvt.) Limited (NATCO), Gilgit-Baltistan was carried out accordingly.

The Directorate General, Audit, Gilgit-Baltistan conducted special audit on the accounts of NATCO, Gilgit-Baltistan during April, 2022 for the financial years 2016-17 to 2020-21 with a view to report significant findings to stakeholders. Audit assessed whether the management had complied with applicable laws, rules and regulations in managing the project. The Audit Report indicates specific actions that, if taken, will help the management to realize the objectives of the NATCO.

The Department furnished replies which have been incorporated in the report but the DAC meeting could not be convened till finalization of the report.

The Special Audit Report is submitted to the Governor of Gilgit-Baltistan in pursuance of Section-98(6) of Government of Gilgit-Baltistan Order 2018 for causing it to be laid before the Legislative Assembly of Gilgit-Baltistan.

Islamabad  
Dated:

**Muhammad Ajmal Gondal**  
Auditor-General of Gilgit-Baltistan





## EXECUTIVE SUMMARY

Director General of Audit, Gilgit-Baltistan Gilgit conducted Special Audit of "Northern Areas Transport Corporation (Pvt) Limited (NATCO)" for the financial years 2016-17 to 2020-21 during the month of April, 2022. The main objective of the audit was to ascertain whether the affairs of the company were run in accordance with the provision of company law and regulations besides ensuring whether the objectives for which the company was established have been achieved. It was a test audit, samples were selected from all areas of expenditure and an attempt was made to review the accounting procedure of the company.

The audit was conducted in accordance with provision of Companies Act, 2017, Public Sector Companies (Corporate Governance) Rules, 2013, Company Memorandum and Articles of Association, Public Procurement Rules, and other rules, regulations and policies of the Gilgit-Baltistan Government. Internal control system was also examined to comment upon system weaknesses and its implications on the procedures adopted by the Company. Accounts of the Company were reviewed to express an independent opinion about the:

- Accuracy, fairness and completeness of the Accounts
- Observance of rules and regulations
- Judicious utilization of funds

### Key Audit Findings

Following are the key audit findings:

- i. Unauthorized utilization of employee's contributory provident fund - Rs. 87.637 million
- ii. Unauthorized utilization of employee's insurance funds - Rs. 69.872 million
- iii. Irregular appointments of MD on additional charge basis
- iv. Unauthorized purchase of petroleum product from local market and creation of huge liability – Rs. 14.661 million
- v. Non-recovery of long outstanding dues - Rs. 552.968 million
- vi. No maintenance of subsidy utilization record – Rs. 684.803 million
- vii. Non-existence of mechanisms for repair and maintenance - Rs.438.859 million
- viii. Loss to company due to non-preparation of annual business plan - Rs. 901.434 million
- ix. Irregular lease of NATCO filling and CNG station at Islamabad - Rs.115 million
- x. Loss due to non-transportation of wheat by the contractors – Rs. 8.127 million

### Recommendations

In the light of audit observations, the following recommendations are made:

- i. Amount utilized out of employee CPF may be refunded to employees CPF accounts with interest besides stopping the irregular practice.
- ii. Amount utilized out of employee insurance fund may be refunded to insurance fund account with interest besides stopping the irregular practice.

- iii. Responsibility may be fixed for the irregular appointment of MD besides rectifying the decisions taken by the MD.
- iv. The petroleum products may be purchased from oil companies in order to maximize the profit besides fixing the responsibility for loss.
- v. Outstanding dues may be recovered besides strengthening the internal control system in order to avoid such incidence in future.
- vi. Subsidy may be worked out in accordance with provision of the company act. Moreover, a mechanism may be devised to make the subsidy scheme sustainable and affordable.
- vii. Mechanism may be devised for routine repair and maintenance of the fleet in order to reduce undue reliance on drivers and to control leakages.
- viii. Comprehensive business plan may be formulated in order to pursue the objectives in the most efficient and economical manner.
- ix. The recommendations of the inquiry committee may be implemented in letter and spirit.
- x. Responsibility may be fixed for not imposing the penalty and non-implementation of the Board decision.

## 1. INTRODUCTION

Directorate General of Audit, Gilgit-Baltistan, Gilgit conducted Special Audit on accounts of “Northern Areas Transport Corporation (NATCO) (Private) Limited” for the financial years 2016-17 to 2020-21 during April, 2022. The audit was conducted in accordance with the INTOSAI Standards for Supreme Audit Institutions (ISSAIs).

### 1.1 Overview of the Company

Northern Areas Transport Corporation (NATCO) (Private) Limited (the company) was incorporated in 1989 as a private limited company. The company is primarily engaged in providing transportation facilities in northern areas of Pakistan. The company also provides subsidized transport service in the far-flung areas besides provision of concessional tickets to the students of Northern Areas. In accordance with provision of Memorandum of Association, the company is also authorized to promote and undertake the formation and establishment of such institutions, business or companies as may be considered to be conducive to the profit and interest of the Company.

The company is wholly owned by the government of Gilgit-Baltistan. Under Article 52 of the Article of Association of the Company, the Chief Secretary Gilgit-Baltistan is the Chairman of the Board of Directors of NATCO, working under the supervision of the government. The managing director (MD) is the Chief Executive of the Company and he functions and exercises powers in relation to management and administration of the company subject to the general supervision and control of the chairman of Board/Chief Secretary, Gilgit-Baltistan.

### 1.2 Financial Resources

The revenue of the Company from passenger and cargo for the period 2016-17 to 2020-21 was Rs.6,379.329 million including subsidy of Rs.789.803 million received from Government whereas the cost of services was Rs.6,654.246 million. Moreover, the management made an expenditure of Rs.411.609 million on account of administrative expenses besides financial expenses of Rs.214.911 million. The net operating loss for the period comes to Rs.901.434 million. The Net Loss after adjustment of other incomes comes to Rs.861.485 million. The detail is as under:

	2016-17	2017-18	2018-19	2019-20	2020-21	Total/ accumulated
Revenue from Passenger, Cargo, Operations and subsidy from Govt.	1352.513	1,105.005	1,221.727	1,288.781	1,411.303	6,379.329
Cost of Service (Fleet, traffic and workshop charges)	1473.431	1,360.582	1,269.587	1,283.162	1,267.481	6,654.243
<b>Gross Profit/ Loss</b>	<b>(120.918)</b>	<b>(255.577)</b>	<b>(47.860)</b>	<b>5.619</b>	<b>143.822</b>	<b>(274.914)</b>
Administrative expenses	(65.853)	(79.849)	(78.152)	(86.050)	(101.705)	(411.609)
Financial expenses	(27.234)	(35.667)	(49.536)	(60.708)	(41.766)	(214.911)
<b>Operating Profit/ Loss</b>	<b>(214.005)</b>	<b>(371.093)</b>	<b>(175.548)</b>	<b>(141.139)</b>	<b>0.351</b>	<b>(901.434)</b>

Other Income/ Loss	15.762	8.305	12.951	(2.541)	5.472	39.949
<b>Net Profit/ Loss</b>	<b>(198.24)</b>	<b>(362.788)</b>	<b>(162.597)</b>	<b>(143.680)</b>	<b>5.823</b>	<b>(861.485)</b>

### 1.3 Company objectives

The company objectives are to:

- Establish road transport system in Gilgit-Baltistan
- Provide reliable transport facilities to the people of Gilgit-Baltistan on subsidies rates.
- Link region by road with rest of the country
- Provide transport facilities for movement of passengers & goods
- Provide transport to tourists
- Enter into any partnership arrangements and joint ventures for sharing profits
- Undertake any other business to make profit which any be authorized by the BoD

## 2. AUDIT OBJECTIVES

The objectives of the audit were:

- Whether the affairs of the company were run in accordance with the provision of company law and regulation
- Whether the objectives with which the company was created have been achieved
- To determine the factors resulting in the loss
- Whether the factors of economy, efficiency and effectiveness were observed

## 3. AUDIT SCOPE AND METHODOLOGY

### 3.1 Audit Scope

The scope of the audit was to scrutinize the accounts of the company covering the period from 2016-17 to 2020-21, which included revenue received by the company from passenger, cargo, operations besides subsidy received from government. The scope also included the review of cost of services, fleet, traffic and workshop as well as administrative & financial expenses.

### 3.2 Audit Methodology

Audit methodology, inter-alia, included review of expenditure incurred, assessment of procurements made, and ascertaining effectiveness of monitoring and evaluation mechanism and maintenance of accounts. During audit execution, information was gathered on the basis of documentation reviewed and discussions held with the management of NATCO.

## **4. AUDIT FINDINGS AND RECOMMENDATIONS**

### **4.1 Organization and Management**

#### **4.1.1 Irregular appointments of MD on additional charge basis**

Article 53(ii) of the Articles of Association of the Company states that the promotion and appointment of Managing Director will be considered and approved by the Governor of Gilgit-Baltistan on the recommendations of Board of Directors.

During special audit of NATCO for the years 2017-21, it was noted that the charge of the post of the MD of NATCO was assigned to different officers of Government of Gilgit-Baltistan on additional charge basis during the period November, 2017 to December, 2020.

Appointments of MD on additional charge basis from time to time without the approval of the Governor were irregular and violation of the provision of the Article of Association.

Audit is of the view that mechanism laid down in Article-53(ii) was not followed by the company at the time of appointment of MD on additional charge basis.

The management replied that till the appointment of regular MD NATCO, the additional charge of the position was assigned as temporary arrangement for short period of time to run the affairs smoothly. Approval for assigning the charge of the post of MD NATCO was accorded by the NATCO BoD. However, appointment of regular MD NATCO was made as per rules and after prior approval of Governor.

The reply was not accepted as the appointment, irrespective of being regular or additional charge, was required to be made with the approval of the Governor Gilgit-Baltistan.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that responsibility may be fixed for the irregularity.

#### **4.1.2 Irregular appointments of DMD on additional charge basis**

Article 53 (i) & (ii) of the Articles of Association of the Company states that the promotion and appointment of Managing Director will be considered and approved by the Governor of Gilgit-Baltistan on the recommendation of Board of Directors. It does not mention Deputy Managing Director (DMD), nor does this post appear in the organogram of the company as approved by the BoD.

The charge of the post of the DMD of NATCO was assigned on additional charge basis to different officers of Government of Gilgit- Baltistan during the period 14.09.2018 to 17.02.2022.

During special audit of the NATCO for the years 2017-21, it was observed that the post of Deputy Managing Director was neither covered in the Article of Association of the Company nor in the NATCO Service Rules.

Audit is of the view that appointment of DMD on additional charge basis was irregular and violation of the provision of the Article of Association and NATCO service rules as no mechanism exists in the Article of Association and Service Rules for appointment of DMD.

The management replied that NATCO Board of Directors in its 102nd meeting, held on 29th November 2016 created the position of DMD and additional charge of the post of DMD was assigned with the approval of NATCO BoD.

The reply was not accepted because no provision exists in Article of Association of the Company. Therefore, the appointment of DMD was irregular.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report

Audit recommends that responsibility may be fixed for the irregularity besides stopping the irregular practice.

#### **4.1.3 Non-auction of off-road vehicles**

Rule 5 (h)(B) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the Board shall also formulate significant policies of the Public Sector Company, including acquisition or disposal of fixed assets and investments.

Northern Areas Transport Corporation (NATCO) was maintaining a fleet of 168 passengers' vehicles including buses and coasters and 150 cargo vehicles of different make and capacity for cargo operation.

During special audit of the NATCO for the years 2017-2021, it was noticed that 26 vehicles of different make and model relating to passenger operations were off road from 01 to 05 years.

Audit observed that despite lapse of considerable time the vehicles were neither repaired for operational duty nor were they auctioned.

Audit further observed that despite having the mandate of estimators, valuers, appraisers, surveyors, with regard to road transport system the company could not formulate policy for execution of given mandate and SoPs for disposal of obsolete assets like vehicles.

Audit is of the view that failure to auction the vehicles resulted in further deterioration of their condition which has resulted in loss to the company as with the passage of time the vehicles may not fetch even the residual value.

The management replied that a committee has been constituted on 31.03.2022 to evaluate the condition of the vehicles parked for auction at different stations. The committee evaluated the vehicles of different stations and suggested 26 vehicles for auction and did the market survey for the current value of these vehicles. Some codal formalities need to be completed before the auction which will be completed in due course of time.

The reply is not supported with documentary evidence. The vehicles were off road since long and despite lapse of considerable time the management could not auction these vehicles which are deteriorating further with the passage of time.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that off road vehicles may be disposed off in accordance with provision of the rules in order to avoid further loss.

#### **4.1.4 Non formulation of medical insurance scheme**

Rule 13.3 of the Northern Area Transport corporation (Pvt) Limited Service Rules,2015 states that the Company shall introduce medical insurance scheme for all its employees including managerial staff. The procedure of the medical insurance shall be finalized after consultation with a renowned insurance company.

During special audit of the NATCO for the years 2017-18 to 2020-21 it was noted that the company has not formulated its medical insurance for its employees.

Audit is of the view that despite having provision in the service rules non formulation of health insurance policy has deprived the staff of their lawful right.

Audit is also of the view that due to non-availability of health care facilities, the employees of the company feel un-secure which has a direct bearing on their performance as is evident from the performance of the Company.

The management replied that NATCO is working on the proposal of medical facility in line with the indoor medical facility allowed to Government employees and the same will be placed before NATCO Board of Director for approval.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that health insurance policy may be formulated in accordance with provisions of the service rules in order to provide health facilities to the employees.

#### **4.1.5 Non-existence of mechanisms for repair and maintenance - Rs.438.859 million**

Sub rule (7) (d) Rules 5 of the of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the Board shall formulate significant policies of the Public Sector Company for procurement of goods and services so as to enhance transparency in procurement transactions.

The Northern Areas Transport Corporation (NATCO) during 2017-21 incurred an expenditure of Rs.216.115 million on repair and maintenance of its passenger and cargo fleet. Details are as under:

(Rs. in million)

<b>Year</b>	<b>Passenger Operations</b>	<b>Cargo Operations</b>
2017-18	49.769	52.515
2018-19	58.842	61.004
2019-20	57.656	46.654
2020-21	56.477	55.942
<b>Total</b>	<b>222.744</b>	<b>216.115</b>

Audit observed as under:

- i. The entire repair and maintenance works were carried out on cash basis and without open competition.
- ii. The management has neither formulated any mechanism nor any policy for routine repair and maintenance of the fleet in order to reduce reliance on drivers and to control leakages.
- iii. In accordance with the provision of the memorandum of association, the Company was required to act as an estimator, valuer, appraiser, besides professional manager in the field of transportation for companies and government departments. Whereas the company could not manage its fleet in a professional manner despite having the mandate and resources.

Audit is of the view that the existing arrangement is not only against the rules but has potential risk for fraud and misappropriation. Further, in absence of approved mechanism/policy the company entirely relies on drivers and the payment to the vendors is also made in cash.

The management replied that the company has formulated a policy for repair and maintenance of its fleet. In order to ensure transparency repair committee has been constituted and all the repair job is being carried out under their supervision and in consultation with concerned station incharge and in the limit fixed by the management. Committee is responsible to ensure the best rates and make the vehicle available for trip in



time. After completion of repair work, replaced parts are being handed over to NATCO stores and job card prepared. Routine repair and maintenance are carried out on cash basis as these expenses are petty in nature and work are of different nature therefore, work is being carried out from different workshops.

The reply is not supported with approved policy. The entire repair work was carried out on cash basis and without prequalifying the firms through open competition.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that a mechanism may be devised for routine repair and maintenance of the fleet in order to reduce reliance on drivers and to control leakages.

## **4.2 Financial Management**

### **4.2.1 Unauthorized utilization of employee's contributory provident fund - Rs. 87.637 million**

Section-218(2) of the Companies Act, 2017 states that where a provident fund has been constituted by a company for its employees or any class of its employees, all moneys contributed to such fund, whether by the company or by the employees, or received or accruing by way of interest, profit or otherwise from the date of contribution, receipt or accrual, as the case may be, shall be deposited in a National Savings Scheme, in a special account to be opened by the company for the purpose in a scheduled bank; or be invested in Government securities.

Rule 14 of the Northern Areas Transport Corporation (Pvt) Limited (NATCO) employees service rules modified and amended in 2015, states that Provident Fund trust shall be created and rules be framed separately for the purpose. The contribution by employee as well as employer will be made at a rate not exceeding 10% of the basic salary.

Northern Areas Transport Corporation (NATCO) deducted an amount of Rs. 87.637 million during the period 2016-17 to 2020-21 from the Company employees on account of Contributory Provident Fund (CPF).

Audit observed that the provident fund contribution amounting to Rs. 87.637 deducted from the salaries during the period 2016-17 to 2020-21 was not deposited in Employee's Provident Fund Account. Whereas, the amount was utilized by the management for other activities, as evident from balance sheet of Employees Contributory Fund balance sheet in which an amount of Rs.106.566 million was receivable from the NACTO including Rs.87.637 million deducted during the period 2016-2021.

Audit is of the view that utilization of employee's provident funds for other operational activities was violation of the provision of the Companies Act, 2017 and Rule-14

of the Northern Areas Transport Corporation (Pvt) Limited (NATCO) employees service rules 2015.

The management replied that being an Autonomous body the Corporation has no such fund by the Government to utilize in crises/emergency situations or to pay the salaries of its employees. It was stated that the major portion of NATCO's revenue is being spent on payment of employees' related expenditures (ERE). Heavy burden of ERE is because of overstaffing. Efforts are being made to address the issue and different proposals have been discussed and approved. NATCO BoD has accorded the approval to submit proposal of Voluntary Golden Handshake scheme. Further, arrangement for posting of 235 surplus staff on deputation in other departments are in final stage. After implementation of these reforms financial burden of ERE will be reduced immediately and more funds will be available to pay off liabilities of CPF, Insurance etc. gradually.

The reply was not accepted as the employee's contributory provident funds were not meant for payment of employees' related expenditure. The use of CPF for other activities was violation of the provision the Companies Act, 2017.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that the amount utilized out of employee CPF may be refunded to employees CPF accounts with interest.

#### **4.2.2 Unauthorized retention of employee's group insurance funds - Rs.72.212 million**

Section 217 of the Companies Act, 2017 states that no company, and no officer or agent of a company, shall receive or utilize any money received as security or deposit, except in accordance with a contract in writing; and all moneys so received shall be kept or deposited by the company or the officer or agent concerned, as the case may be, in a special account with a scheduled bank.

Rule 17 of the Northern Areas Transport Corporation (Pvt) Limited (NATCO) employees service rules modified and amended in 2015 states that all employees of the company shall be covered by the group insurance scheme.

Northern Areas Transport Corporation (NATCO) deducted an amount of Rs.72.212 million during the period 2016-17 to 2020-21 from the Company employees on account of insurance.

Audit observed that the amount deducted on account of Group Insurance during the period 2016-17 to 2020-21 was not transfer to Group Insurance Fund Account. Further the management has not made any arrangement with Insurance Companies for provision of insurance coverage to the employees.

Audit is of the view that retention/ non-transferred of employee's group insurance subscription to group insurance fund account was violation of the provision of the Companies Act, 2017.

The management replied that the Company has taken some steps and it is expected that more funds will be available for payment of outstanding insurance funds.

The reply was not accepted as the employees' insurance funds was not meant for payment of operational expenditure. The use of employees' insurance funds for operational activities was violation of the provision the Companies Act, 2017.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report

Audit recommends that amount utilized out of employee insurance fund may be refunded to insurance fund account with interest.

#### **4.2.3 Non-carrying of actuarial of pension fund**

Rule 14 of the Trust Deed Rules 1996 of NATCO staff pension fund states that an actuary of the Fund shall be appointed to advise the Trustees on all matters relating to the administration of the Fund and or carry out any investigation as may be necessary from time to time.

The Northern Areas Transport Corporation (NATCO) established a staff pension fund under the Trust Deed dated 1.12.1996 through a resolution. As on 30.06.2021 the numbers of beneficiaries of the pension scheme were 854 employees of different scales and cadres.

Audit observed that since establishment of the fund the management did not carry out the actuarial of the Fund in line with provisions of the trust deed rules.

Audit further observed that NATCO is facing severe financial crisis and has even utilized employee's contributory and insurance fund for operational activities.

Audit is of the view that non carrying of actuarial of pension fund was not only the violation of the rules but in absence of actuarial the management could not analyze and assess the financial risks and uncertainty associated with the scheme. Due to non-carrying of actuarial of pension fund the management is not aware about the actual requirement of funds to meet the future pensionary obligations.

The management replied that NATCO pension scheme is a self-finance scheme. Under the scheme 21% of basic pay is deducted from the salary of staff and transferred to State Life Insurance Company and upon attaining the age of 55 year they are paying pension and other benefits to the retired employees of NATCO as per the agreed formula. NATCO

has established a pension cell to look after the affairs of NATCO employees and make correspondence on their behalf.

The management did not reply regarding non-carrying of actuarial of pension funds as required under rule 14 of the Trust Deed Rules 1996.

The management was requested to convene DAC meeting vide letter dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that in order to make the pension scheme sustainable actuarial of pension fund may be carried out to analyze and assess the financial risk and uncertainty associated with the scheme.

#### **4.2.4 Non-preparation of financial statements of pension fund**

Rule 13 of the Trust Deed Rules of NATCO staff pension fund states that Trustees shall cause to keep and maintain proper books of accounts at the Head Office of NATCO, and at the end of each Scheme Year shall cause to be prepared a revenue account and balance sheet of the Fund in accordance with accounting principles generally accepted for such purposes which shall be audited by Auditors duly appointed by the Trustees and approved by the NATCO.

The Northern Areas Transport Corporation (NATCO) established a staff pension fund under the Trust Deed dated 1.12.1996 through a resolution. As on 30.06.2021 the number of beneficiaries of the pension scheme was 854 employees of different scales and cadres.

Audit observed that since the establishment of the Fund the management did not prepare the accounts in accordance with requirements of the trust deed rules.

Audit is of the view that preparation of account and non-conducting of Audit of the Fund was violation of the provisions of the trust rules.

The management replied that NATCO pension scheme is a self-finance scheme. Under the scheme 21% of basic pay is deducted from the salary of staff and transferred to State Life Insurance Company and upon attaining the age of 55 year they are paying pension and other benefits to the retired employees of NATCO as per the agreed formula. NATCO has established pension cell to look after the affairs of NATCO employees, therefore, the accounts were not prepared.

The reply was inconsistent with the provision of rule 13 of the trust deed rules of NATCO staff pension fund.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that accounts of the pension Fund may be prepared and got audited from Auditor in accordance with provision of the trust deed.

#### **4.2.5 Loss to NATCO on account of un-economical operations of mountain filling stations – Rs. 7.782 million**

Clause 19 of the Memorandum of Association of the company states that the company will promote and undertake the formation and establishment of such institutions, business or companies as may be considered to be conducive to the profit and interest of the Company.

Clause 9 of the Memorandum of Association of Northern Areas Transport Corporation (NATCO) states that for the purchase and sales of petroleum product the company may make contract with supplier and distributors of petroleum products.

Northern Areas Transport Corporation (NATCO) established a chain of Petrol Pumps (Mountain filling stations) as its line business. As on 30.6.2021 the corporation was running five petrol pumps at different stations i.e. Bisham, Juglot, Gilgit, Gahkuch and Sost.

During the special audit of the company for the years 2017-21, audit observed that during financial year 2016-17 only one filling station (MFS Juglot) sustained loss of Rs. 833,617. Similarly, during financial year 2018-19 the same station also sustained loss of Rs. 690,118. However, during financial year 2019-20 all filling stations were running in loss except one filling station which recorded a nominal profit as evident from finding of committee constituted for determine the losses made by MFS. The accumulative loss for the period was Rs. 7.782 million. Detail is as under:

<b>S. No.</b>	<b>Branch Name</b>	<b>From</b>	<b>To</b>	<b>Profit/(Loss)</b>
1.	MFS Juglot	01.07.2016	30.06.2017	(833,617)
2.	MFS Juglot	01.07.2018	30.06.2019	(690,118)
3.	MFS Gilgit	01.07.2019	31.03.2020	(1,172,898)
4.	MFS Juglot	01.07.2019	31.03.2020	(1,790,207)
5.	MFS Besham	01.07.2019	31.03.2020	316,706
6.	MFS Sost	01.07.2019	31.03.2020	(1,677,500)
7.	MFS Gahkuch	01.07.2019	31.03.2020	(1,934,568)
<b>Total</b>				<b>(7,782,202)</b>

Audit is of the view that the initiative of establishing filling stations was to earn profit whereas the existing scenario is completely contrary to the objectives.

Audit is also of the view that despite the availability of adequate human resources exclusively appointed for filling stations, financial resources and business potential in the region, the company sustaining loss merely due to negligence and mismanagement.

The management replied that the NATCO Mountain Filling Stations were established with the collaboration of OMC(s) Oil Marketing Companies, to provide backup to the NATCO fleet as well as to the administration of Gilgit-Baltistan. Besides discouraging monopoly of private fuel stations, the main objective of the NATCO MFS is to provide fuel with quality, quantity, in time and on credit basis for smooth transportation of wheat,

passenger fleet and administration’s machinery. NATCO MFS is providing fuel to NATCO Fleet on credit without charging markup thereon. Therefore, these filling stations are also the credit line of NATCO. However, the issues like posting of staff from NATCO, difficulty of re-branding of two fuel pumps after expiry of lease from existing OMC and closing of Pak-China Border resulted in loss.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that resources may be utilized efficiently in order to maximize the profit and to avoid further loss besides finding the reasons of loss and fixing responsibility.

#### **4.2.6 Embezzlement in petrol pumps operations - Rs. 10.629 million**

Rule 2A(1)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the business of the Public Sector Company is carried on with integrity, objectivity, due care and the professional skills appropriate to the nature and scale of its activities.

Clause 19 of the Memorandum of Association of the NATCO states that the company will promote and undertake the formation and establishment of such institutions, business or companies as may be considered to be conducive to the profit and interest of the Company.

Northern Areas Transport Corporation (NATCO) is running five Petrol Pumps as its line business in different cities of the Gilgit-Baltistan and KP.

Audit observed that in nine different cases, the employees of the petrol pumps embezzled an amount of Rs.10.629 million up to close of financial year 2020-21. Detail is as under:

<b>S. No.</b>	<b>Name of Cashier, Ex-cashier and Manager</b>	<b>Designation</b>	<b>Amount (Rs.)</b>
1.	Mr. Ajmal Hussain	Ex Manager Gilgit. Presently working as Manager Besham	482,480
2.	Mr. Safdar Hussain	Ex Cashier Gilgit. Presently working as Manager NSD Dar Plaza	1,225,835
3.	Mr. Javaid Iqbal	Ex Manager Gilgit	84,581
4.	Mr. Asif Nahid	Ex Manager Gilgit	287,930
5.	Mr. Naik Alam	Ex Manager Besham	17,271
6.	Mr. Amjad Karim	Ex Cashier Besham	5,722,071
7.	Mr. Sultan Wali	Ex Cashier Besham	2,809,319
<b>Total</b>			<b>10,629,487</b>

Audit further observed that the management has neither prepared standing operating procedure nor any mechanism to ensure smooth functioning of the petrol pumps and to maintain transparency in the filling stations operation.

Audit is of the view that the existing system is most conducive for such fraudulent actions. Due to non-existence of approved standing operating procedure and non-adherence to the provisions of the rules and objectives of the company the management sustained a loss of Rs.10.629 million.

The management replied that some funds were embezzled by cashiers of fuel pumps by not depositing the daily sale proceeds. The management has initiated action against the concerned. Moreover, non-recovery of credit sale also resulted in loss for which the concerned managers or cashiers were responsible. The management is aggressively pursuing for recovery of embezzled amount.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that the matter may be inquired for fixing responsibility for the loss besides making recovery from the employees and strengthening the internal control system in order to avoid such occurrence in future.

#### **4.2.7 Unauthorized purchase of petroleum product from local market and creation of huge liability – Rs. 27.393 million**

Rule 2A(1)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the business of the Public Sector Company is carried on with integrity, objectivity, due care and the professional skills appropriate to the nature and scale of its activities.

Clause 9 of the Memorandum of Association of Northern Areas Transport Corporation (NATCO) states that for the purchase and sales of petroleum product the company may make contract with supplier and distributors of petroleum products.

Northern Areas Transport Corporation (NATCO) owned petrol pumps one each established at Gilgit and Jaglot. They made an agreement with Shell Pakistan for provision of petroleum products. The agreement with the company expired in August, 2019.

During special audit of the company for the years 2017-21 audit observed that after expiry of the contract, the management of the company did not make any contract with oil distribution company for supply of oil to these pumps and the oil was purchased from local market.

Audit further observed that the oil was purchased on credit basis from the local market and consequently a liability of Rs.14.661 million was created.

Audit further observed that cargo units of the Corporation purchased diesel/petrol from these pumps worth Rs.12.732 million but payment has not been made till close of the financial year 2020-21.

Audit is of the view that purchase of oil from local market is not only expensive as it left no profit margin but it is also a violation of the provision of the Memorandum of the Association of the Company.

The management replied that upon the expiry of contract with Shell Pakistan, NATCO has floated EOI for franchise agreement but could not receive any feasible proposal from oil distribution companies to undertake new franchise agreement for supply of fuel to its pumps. To run the daily affairs smoothly, it was necessary to purchase petroleum products from the local market. A committee has already been constituted to make new franchise agreement with OMCs, which is under process.

The reply was not accepted because the management was required to initiate the process for franchise agreement well before expiry of the agreement with Shell Pakistan for smooth operation of filling stations.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that the petroleum products may be purchased from oil companies in order to maximize the profit besides fixing responsibility.

#### **4.2.8 Non-recovery of long outstanding dues - Rs. 552.968 million**

Sub rule-7(e&f) of rules 5 of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the Board should formulate significant policies of the Public Sector Company for marketing of goods to be sold or services to be rendered and determination of terms of credit and discount to customers.

Northern Areas Transport Corporation (NATCO) recovered an amount of Rs.906.011 million during financial year 2020-21 from various departments and parties on account of provision of transportation services.

Audit observed that an amount of Rs.552.968 million was still outstanding against various departments, organizations as on 30.06.2021.

Audit further observed that major amount of Rs.405 million which is almost 74% of the total recoverable amount is outstanding since 2015-16. The company has neither formulated any policy regarding timely recovery of dues from different clients nor imposed any penalty/ fine in case of delay payment.

Audit is of the view that the company is already facing serious financial crises due to non-availability of financial resources and on the other hand non recovery of dues from departments has further aggravated the situation.



The management replied that NATCO being a government organization is engaged in transportation of civil supply of wheat to Gilgit-Baltistan. The Company provided services on credit basis to the government departments of Gilgit-Baltistan during bad law and order situation. Almost the whole recoverable amount is outstanding against government departments. The company is a small organization with share capital of Rs.450.00 million whereas a huge amount of Rs.579.00 million is outstanding against Gilgit-Baltistan government departments. However, the company is trying its best for early realization of outstanding dues by presenting the receivable report to the NATCO Board of Directors.

The management was requested to convene DAC meeting vide letter dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that the outstanding dues may be recovered besides strengthening the internal control system in order to avoid recurrence of such an incidence in future.

#### **4.2.9 Unjustified collection of security charges - Rs. 36.049 million**

The prime objective of establishment of the company as contained in object 2 of the Memorandum of Association was to establish and operate a road transport system in the Northern Areas of Pakistan for movement of passengers and goods within Northern Areas, to and from the rest of Pakistan in association with the Government of Pakistan or any agency authorized to associate or co-ordinate.

Northern Areas Transport Corporation (NATCO) was maintaining a fleet of 168 passenger vehicles including buses and coasters. The passenger's vehicles for Rawalpindi operate from seven districts of GB. Fair charges are fixed by the Excise and Taxation Department of GB.

Audit observed that the fair charges include security charges @ Rs.65 per passenger in respect of vehicles operated for Rawalpindi from different stations of the GB since 2016.

Audit further observed as under:

- i. Provision of road security on KKH in GB is the responsibility of the Karakorum Task Force which has been established for exclusive security of KKH areas in GB.
- ii. The company has no specialized trained force for provision of security as the security duty is performed by helper deployed with bus who is a regular employee and is on the payroll of the Company.
- iii. Security charges are made pare of revenue of the company. However, neither the centralized passengers' record is maintained nor is separate record of the security charges received from the passengers maintained to ascertain the exact amount.
- iv. Passengers insurance data indicates that an average 38,651 passengers per year travel from Gilgit to Rawalpindi. The average annual collection under security charges, therefore, comes to Rs.9.012 million and accumulated figure for the last four years comes to Rs.36.49 million.

- v. BoD is competent forum to determine and impose such charges whereas in said case the charges and fairs were fixed by the Excise and Taxation Department.
- vi. The management has not introduced online computerized booking system for passengers and effective fleet management.

Audit is of the view that in the absence of security guard, the collection of security charges is unjustified. Moreover, in the absence of complete passenger's data, audit could not ascertain the exact amount collected so far.

The management replied that the Government of Gilgit-Baltistan directed for provision of security guards with a weapon in all passenger vehicles travelling on the Karakorum Highway (KKH). After receiving the required training from police department, the company staff was deputed on passenger vehicles as security guard. The NATCO has not increased its fair after deployment of security guards in vehicles.

The reply was not convincing as the management charged Rs.65 per passenger as security charges.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that security charges may be discontinued as no security service is provided. Moreover, complete record of security charges may be provided to determine the exact amount.

#### **4.2.10 Unauthorized utilization of passengers' insurance funds - Rs.8.669 million**

Section 217 of the Companies Act, 2017 states that no company, and no officer or agent of a company, shall receive or utilize any money received as security or deposit, except in accordance with a contract in writing; and all moneys so received shall be kept or deposited by the company or the officer or agent concerned, as the case may be, in a special account with a scheduled bank.

Northern Areas Transport Corporation (NATCO) was maintaining a fleet of 168 passengers' vehicles including buses and coasters. The passenger's buses for Rawalpindi operate from different districts of the GB. Fair charges are fixed by the Excise and Taxation Department of the GB.

Audit observed that the fair charges included insurance charges @ Rs.10 per passenger in respect of vehicles operated for Rawalpindi from different stations of the GB since its inception. As on 30.06.2021 a balance of Rs.13.663 million was available in the insurance fund.

Audit further observed as under:

- i. No centralized passengers' record is maintained to ascertain the exact number of passengers to determine amount received so far on account of insurance charges
- ii. The management has utilized funds of Rs.7.00 million out of insurance funds for other operational activities.
- iii. Neither any arrangements were made with insurance company, for insurance of passengers in lawful manner nor were the funds further invested.
- iv. Numerous bank accounts are maintained at different stations for insurance funds instead of maintaining a centralized account for effective utilization and efficient management of the fund.
- v. Fund of Rs.1.669 million was retained by the cashier instead of depositing into passenger's insurance fund.

Audit is of the view that the utilization of passenger insurance proceeds for other activities was unauthorized.

Furthermore, audit is of the view that in absence of centralized passengers record the authenticity of insurance fund received so far could not be ascertained.

The management replied that the account was maintained centrally. The name and ticket number of travelers is written on the challans of the passenger vehicles which is entered in daily report of the respective station. Further, the insurance charges of Rs. 10 are being charged only on long routes. Being an autonomous body, the corporation utilized the funds in crises/emergency situations. The Corporation is facing some financial crises due to over staffing, competitive rates of civil supply wheat contract and the covid-19 pandemic. The NATCO management is trying its best to overcome the losses and refund the amount withdrawn from the insurance accounts. It is in the interest of NATCO to keep the funds in its own account rather making arrangements with insurance company.

The reply was not accepted because the insurance of the passengers is required to be made through an insurance company instead of utilizing funds for other purposes.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that the arrangement of passenger insurance may be made through an insurance company to provide proper insurance coverage to the passengers in accordance with the provision of Insurance Ordinance, 2000. Moreover, complete data of passengers may be provided to determine the exact amount.

#### 4.2.11 No maintenance of subsidy utilization record – Rs. 684.803 million

Clause 3 of the Memorandum of Association of NATCO states that the company will receive grants for provision of subsidized transport service in the far-flung areas and concessional tickets to the students of Northern Areas

Rule 5 (8) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that any service delivered or goods sold by a Public Sector Company as a public service obligation where decisions are taken in fulfilling social objectives of the Government but are not in its commercial interests, outlay of such action shall be quantified and request for appropriate compensation there-for shall be submitted to the Government for consideration.

Northern Areas Transport Corporation (NATCO) was maintaining a fleet of 168 passengers' vehicles including buses and coasters. In accordance with the objectives of the Memorandum the Company provided subsidized transportation services in the far-flung areas besides provision of concessional tickets to the students. During last four years the company received subsidy amounting to Rs.684.803 million from government. Details are as under:

S. No.	Year	Amount (In million)
1	2017-18	116.00
2	2018-19	188.803
3	2019-20	180.00
4	2020-21	200.00
<b>Total</b>		<b>684.803</b>

Audit observed that the company did not maintain passengers' data to substantiate the utilization of funds received as subsidy from the government.

Audit further observed that subsidy is claimed on overall loss of passenger's operation instead of specific uneconomic/far-flung areas routes.

Audit is of the view that in absence of proper utilization record in accordance with provision of memorandum of Association, audit could not ascertain the authenticity of expenditure made.

The management replied that Government is providing subsidy to the NATCO against operation of un-economical routes, students concession, discount to special persons and any other sector which the Government may allow from time to time. It is not possible to keep a separate record for utilization of subsidy as cost sharing/attribution costing and activity base costing is not practicable in NATCO. However, record of uneconomical routes, student's concession and obligatory duties is being maintained and provided as and when demanded.

Reply was not satisfactory as the management was required to maintain a proper record to substantiate the utilization of subsidy provided by the government.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that the subsidy may be worked out in accordance with provision of the company act. Moreover, a mechanism may be devised to make the subsidy sustainable and affordable.

#### **4.2.12 Irregular hiring of transport and payment to companies in cash – Rs. 45.790 million**

Rule-12(2) of Public Procurement Rules, 2004 states that all procurement opportunities over three million Pakistani 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.

Sub rule(7)(d) of rules 5 of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the Board shall also formulate significant policies of the Public Sector Company for procurement of goods and services so as to enhance transparency in procurement transactions;

Sub Rules 5(C)(III) of Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013 states the principle of relationship with stakeholders requires the Board to ensure compliance with the law and the Public Sector Company's internal rules and procedures relating to public procurement, tender regulations, purchasing and technical standards, when dealing with suppliers of goods and services.

The Northern Areas Transport Corporation (NATCO) provided transportation services to Election Commission of GB for transportation of troops from various provinces to GB during general election, 2020. In addition to the company fleet, the management also hired buses from open market. The company claimed an amount of Rs.166.827 million from the EC.

Audit observed as follow:

- i. No agreement was made with Election Commission for determining the terms and conditions.
- ii. The vehicles from market were hired on quotation basis instead of calling open tenders.
- iii. The payments of Rs. 45.79 million to the private contractors were made in cash instead of cross cheques.

Audit is of the view that vehicles were hired in violation of rules. Further, the payment in cash was not only serious violation of Public Sector Companies (Corporate

Governance) Rules, 2013 but the procedure adopted was most prone to risk of misappropriation and fraud.

The management replied that the Gilgit-Baltistan Care Taker Cabinet declared emergency under Rule-42 of Public Procurement Rules, 2001 for carrying out procurements and incurring expenditures related to all arrangement by District Returning Officer/Deputy Commissioners/District Election Commissioner with effect from 25.11.2020 for General Election-GBA, 2020. Approval for hiring of private vehicle on market rates was obtained in 118<sup>th</sup> BOD meeting held on 6<sup>th</sup> November 2020. Due to short span of time and declaration of emergency it was practically not possible to float tender for hiring of private vehicle throughout the country. In transport sector the transporters are not providing vehicles on credit or on cross cheques. It is further submitted that the private vehicles were hired below the rates notified by RTA.

The reply relating to payment in cash was inconsistent with rules. Moreover, the management did not reply regarding agreement with election commission for determining the term & conditions for provision of transportation services during general election 2020.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that responsibility may be fixed for making payment in cash to the transport companies.

#### **4.2.13 Unjustified claims on account of haltage charges from government -Rs. 29.275 million**

Sub Rule (7) (d) of rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the Board shall also formulate significant policies of the Public Sector Company for procurement of goods and services so as to enhance transparency in procurement transactions;

Sub Rule 5(C)(III) of rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the principle of relationship with stakeholders requires the Board to ensure compliance with the law and the Public Sector Company's internal rules and procedures relating to public procurement, tender regulations, purchasing and technical standards, when dealing with suppliers of goods and services.

The Northern Areas Transport Corporation (NATCO) provided transport to Election Commission (EC) of GB for transportation of troops from various provinces to GB during general election, 2020. The company claimed an amount of Rs.166.827 million from the EC.

Audit observed that the amount claimed from Election Commission of Gilgit-Baltistan included an amount of Rs.29.275 million as haltage charges.

Audit further observed that no agreement was made with Election Commission for determining the terms and conditions. Vehicles from market were hired on lump sum basis from different locations and the haltage charges were neither included in the rates fixed with the private transporters nor paid to the private contractors.

Audit is of the view that no agreement was made with EC-GB determining the terms and conditions therefore, the claim of haltage charges was irregular and resulted in extra burden on the government.

The management replied that NATCO suspended its regular operations on all routes from 06 to 20.11 2020 for transportation of security personnel and keep the fleet along with the crew on standby to cater to any emergency situation and timely transportation of the security personnel back to their respective provinces. Charging of haltage is a regular practice in transport sector and NATCO has already notified the haltage rates vide letter No TRF-3(9)/9888/2014 dated 22nd February 2014. NATCO has claimed the haltage charges as per the notified rates.

The reply was not accepted as the haltage charges were claimed in respect of private vehicles but were not paid to the private contractors/ parties. Moreover, no agreement was made with Election Commission containing the detailed terms and conditions.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that haltage charges may be adjusted against out-standing dues against Election Commission besides stopping irregular practice of provision of services without proper agreement.

#### **4.2.14 Irregular payment of additional charge allowance – Rs. 6.038 million**

Section 15 of Gilgit-Baltistan Civil Servants Act, 2011 states that when the appointment is made on a current charge basis or by way of additional charge, his pay shall be fixed in the prescribed manner:

In terms of Finance Division O.M No.1(2) Imp/2016-333 dated 01.07.2016, a Government servant entrusted with the additional charge is entitled for additional charge allowance@ 20% of the basic pay subject to maximum of Rs.12,000.

The Government of Gilgit-Baltistan granted additional charge of different posts and cadre of NATCO to various officers of the GB government during the period December, 2017 to June, 2021.

Audit observed that NATCO paid basic running pay as additional charge allowance to the officers of GB government holding additional charge of different posts in NATCO

instead of 20% of basic pay subject to maximum of Rs.12, 000. During the period December, 2017 to June, 2021 an amount of Rs.6.038 million was paid as additional charge allowance.

Audit further observed that the additional charge arrangement remained continued for more than three months without the approval of competent authority,

Audit is of the view that payment of basic running pay as additional charge allowance was irregular as it was made in violation of the provision of GB Civil Service Act and Finance department instructions and NATCO service rules.

The management replied that provision of Gilgit-Baltistan Civil Servants Act, 2011 is not applicable to NATCO, which is a private limited company registered under Companies Ordinance, 1984. NATCO Board of Director is competent to fix the salary or any other allowance to its employees. NATCO Board of Directors in its 106th & 111th meeting held on 8th June 2018 and 30th January 2019 respectively, approved unanimously one running basic salary per month for the duration of additional charge in NATCO as compensation/ incentive/ honorarium. The payment of additional charge was made after the approval of NATCO Board.

The reply is inconsistent with rules as the NATCO Board is competent to grant allowances etc to its employees in accordance with approved rules and policies but NATCO Board is not competent to fix allowance for government officers who are governed by Civil Servants Act.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report

Audit recommends that responsibility may be fixed for the irregularity besides making recovery.

#### **4.2.15 Loss to company due to non-preparation of annual business plan – Rs. 901.434 million**

Rule 7(1) of the of the Public Sector Companies (Corporate Governance) Rules, 2013 states that significant issues including annual business plans, cash flow projections, forecasts and long-term plans; budgets including capital, manpower and expenditure budgets, along with variance analyses should be placed before the Board for its information and consideration, in order to formalize and strengthen the corporate decisions making process.

The prime objective of establishment of the company as contained in its Memorandum of Association was to setup and operate a road transport system in Northern Areas of Pakistan for movement of passengers and goods within Northern Areas of Pakistan, to and from Pakistan in association with the Government of Pakistan or any agency authorized to associate or co-ordinate.



In present competitive environment the transportation and logistics business has become extremely volatile. Therefore, a well-structured business plan is of paramount importance for the company like NATCO. A good business plan is necessary for achieving the objectives in most systematic manners as it enables the company to optimize its performance for long-term benefits.

During special audit of the company for the years 2017-21, audit observed as under:

- i. The company neither chalked out its business plan nor formulated any strategy to pursue the objectives in most efficient and economical manners.
- ii. In absence of a proper well thought out business plan in accordance with the objectives and corporate sector requirements, the company sustained heavy losses during financial years 2016 onwards.
- iii. Due to operational inefficiency the company sustain a loss of Rs.901.434 million during the period 2016-17 to 2020-21.
- iv. NATCO in 48 years of its existence in the market was required to be the market leader in field of cargo and passenger operation but due to non formulation of market penetration strategy the company has solely been dependant on transportation of wheat in a few stations.
- v. Despite having resources, legal mandate and expertise the company could not exploit its brand for exploring new avenues and opportunities in the market either in cargo or in passenger operations.
- vi. Despite being established for almost five decades, the company could not establish its online booking module in current modern era in order to control the operational leakages which are uncontrolled in the existing manual booking system.

Audit is of the view that in the absence of a well thought out business plan, the objectives for which the company was established were not achieved and resultantly the company sustained a substantial loss.

Audit is also of the view that non preparation of business plan is not only violation of the provisions of the corporate governance rules but also against the basic principles of good governance.

The management replied that due to road conditions of KKH, Covid-19 restrictions, closure of Pak-China border and unstable economy, business plan for further expansion was not feasible. However, annual business plans for current operations are already in place. Passenger vehicles and booking are operating as per their schedules and cargo vehicles are operating as per the schedule of wheat lifting. For upcoming financial year and after improved road conditions NATCO has prepared a plan to concentrate more on passenger operation. NATCO has placed purchase orders for eight additional modern buses, which will be operational in the month of July 2022.

The reply was not convincing as the management neither chalked out its business plan nor formulated any strategy to pursue the objectives in most efficient and economical manners in the long term as well as in short terms.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that a comprehensive business plan may be formulated in order to pursue the objectives in most efficient and economical manners. Further a digitized online system of booking/ticketing may be introduced for the facilitation of general public and for greater transparency in operations.

#### **4.2.16 Non preparation of annual budget and loss of Rs. 214.911 million**

Rule 7(1) of the of the Public Sector Companies (Corporate Governance) Rules, 2013 states that significant issues including annual business plans, cash flow projections, forecasts and long-term plans; budgets including capital, manpower and expenditure budgets, along with variance analyses should be placed before the Board for its information and consideration, in order to formalize and strengthen the corporate decisions making process.

The prime objective of establishment of the company as contained in Memorandum of Association was to setup and operate a road transport system in Northern Areas of Pakistan for movement of passengers and goods within Northern Areas of Pakistan, to and from Pakistan in association with the Government of Pakistan or any agency authorized to associate or co-ordinate.

Northern Areas Transport Corporation (NATCO) was maintaining a fleet of 168 passenger vehicles including buses and coasters and 150 cargo vehicles of different make and capacity. The company generates average revenue of Rs.1,275.870 million annually from its passengers and cargo operations.

Audit observed as under:

1. The company did not prepare the expenditure and revenue estimates enabling the company to accurately set goals, priorities, and spending limits in advance, and to identify the factors from where the funding originates and where new strategies might bring revenue into the company funds.
2. No mechanism was in place for preparation of expenditure and revenue estimates/budget in scientific manner in line with company's strategic objectives, goals, and priorities, financial requirements and spending limits.
3. Instead of exploring multiple revenue generation avenues the company mostly relied on short term financing from banks besides leasing facilities from bank for acquiring assets and running of day to day business.

4. During the last five years till close of the financial year 2020-21, the company paid an amount of Rs.214.911 million as financial cost on account of markup on credit facilities availed from the KCBL and Bank Al-Falah. As on 30.06.2021 balance of borrowing from KCBL was Rs.90.951 million and Bank Al-Falah was Rs.249.895 million, besides government grant of Rs.115.040 million.
5. Bridge financing of Rs.100.000 million from government for purchase of vehicles.

Audit is of the view that non-preparation of revenue and expenditure estimates was against the principles of good governance. In the absence of well formulated estimates the company could not accurately set up its goals and priorities besides determining the spending limits. Consequently, the company paid heavy financial cost to meet its financial requirement which resulted in loss to the company.

Audit is also of the view that a proper budgeting process provides essential information for operating within means and it could have helped the management to control the spending besides tracking the expense, making better financial decisions for running the affairs of the company in most economical and efficient manner to minimize the constant losses and to maximize profit.

The management replied that due to Covid-19, closure of Pak China border and absence of a regular Managing Director/ CEO the annual budget was not prepared. The reply was not convincing as the board remained fully functional and the issues highlighted by the management have no concerned with preparation of budget.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that a proper budgeting process may be adopted for making better financial decisions for running the affairs of the company in most economical and efficient manners to minimize the constant losses and to maximize profit.

#### **4.2.17 Irregular payment of commission instead of trip allowance without the approval of the board - Rs. 148.503 million**

Rule 4(3) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Act and these rules.

In accordance with provision of service agreement, the staff deputed on operation of transport (passengers and cargo fleet) is entitled for trip allowance at specified rates from time to time.

NATCO incurred an expenditure of Rs. 148.503 million on account of commission and allowances to the operational staff of the cargo and passenger fleet of the Company during 2017-21.

Audit observed that, as per service agreement, the staff was entitled for trip allowance instead of commission and allowances. Moreover, the existing arrangement was not approved by the Board.

Audit is of the view that payment of commission was paid in violation of the provision of the service agreement and provisions of rules.

The management replied that in transport industry commission or trip allowances are being paid to meet the expenditures in transit. NATCO is not paying any TA/DA / over time or stay and meal to the crew. In order to meet the expenditures fixed trip allowance is being paid to the crew of cargo vehicles. While on the other hand commission is being paid on the gross booking to the crew of passenger vehicles to encourage the vehicle crew to attract more passengers and increase the booking. Private sector has also adopted the same practice. Moreover, MD NATCO being the Chief Executive Officer is competent and have full power to approve all trip expenses. Reply is inconsistent with the approved policy. Moreover, the MD is competent to approve certain expenditure in accordance with approved rules and policies and terms and conditions of service contracts of the employees.

The management was requested to convene DAC meeting vide letter dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that the trip allowance may be regulated in accordance with the provisions of the service contract or alternately to stop the irregular practice.

#### **4.2.18 Non-payment of POL charges to mountain filling stations - Rs.48.176 million**

Clause 19 of the Memorandum of Association of the company states that the company will promote and undertake the formation and establishment of such institutions, businesses or companies as may be considered to be conducive to the profit and interest of the Company.

Rule 4(3) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Act and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

NATCO started its line business of establishment of filling stations in 2002 under the brand Mountain filling stations as a subsidiary unit. Since start of the business, the NATCO

has established six filling stations including one each at Besham and Islamabad. In addition, four stations are in pipe line.

The basic idea of establishing filling stations was to facilitate the NATCO passengers and cargo operation in order to reduce the dependency on others besides reducing the staff cost and increasing the revenue for the company. The NATCO as a client procures petrol and diesel from these stations on prevailing rates.

During special audit of NATCO, audit observed that an amount of Rs.48.176 million was payable by NATCO to mountain filling stations from June, 2019 to June, 2021.

Audit further observed that 19 employees of the filling stations were at the pay roll of NATCO from July, 2019 to onward, whereas they were appointed for filling stations. The monthly impact of salaries cost comes to Rs. 556,000.

Audit is of the view that business was started with a view to earn revenue but on the contrary, the venture is suffering losses at the hand of its own promoter.

The management replied that NATCO MFS are providing fuel to NATCO fleet on credit without charging markup thereon. Therefore, these filling stations are also the credit line of NATCO. The cargo fleet has engaged in the business of wheat transportation and clearance of bills from civil supply takes around two to three months time. During this period cargo fleet get the fuel from MFS on credit and upon release of payment from civil supply the liability of MFS is paid off. The reply was not convincing. The mountain filling stations are a separate business line which focused on profit. The management has not replied regarding payment of outstanding dues of the MFS.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that amount may be paid to the mountain filling stations besides making a comprehensive business plan for the filling stations to avoid losses.

### **4.3 Compliance with Agreement/Contract Management**

#### **4.3.1 Irregular lease of NATCO filling and CNG station at Islamabad – Rs. 115 million**

Clause 19 of the Memorandum of Association of the company states that the company will promote and undertake the formation and establishment of such institutions, business or companies as may be considered to be conducive to the profit and interest of the Company.

Rule 4(3) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of

the Board, in accordance with the Act and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

The Board of Directors of NATCO ordered an inquiry regarding lease of establishment of NATCO filling and CNG station at plot No.,48 Sector I-9/4 Islamabad during 2019-21. Accordingly, in light of Board decision the following Committee was constituted to probe the issue:-

- Mr. Shahid Hussain, Joint Secretary (KA&GB/Member BOD-Chairman of the Committee
- Bilal Ahmed Memon, Secretary Works/MD NATCO (Member)
- Mr. Babar Aman Babar, Secretary P&D GB/Member BOD (Member)

The inquiry committee pointed out serious irregularities and violation of rules in the bidding process and also calculated/ determined colossal loss from Rs.48 to Rs.115 million in the entire process.

The inquiry committee submitted its report on 09.10.2018. Based on these findings, the inquiry committee submitted following recommendations/actions which included the administrative and criminal proceedings against the serving and retired officers of NATCO.

- i. Termination of lease agreement with contractor M/s Badshah Filling Station
- ii. On possession of the pump, NATCO may either run it on its own or advertise operational lease to any Oil Marketing Companies (OMC)
- iii. Investment made by the contractor M/s Badshah Filling stations on NATCO fuel pump be forfeited as partial compensation towards the loss caused to NATCO
- iv. A reference shall be submitted to NAB for investigating the matter thoroughly to recover the loss caused to NATCO, Government of Gilgit-Baltistan, private persons/beneficiaries
- v. Termination of contract by rescinding the same, at the risk and cost of the Lessee by filing a suit for damages under Section 39 read with Section 75 of the Contract Act,1872

Audit observed that the management had not taken any action as recommended by the inquiry committee so far.

The management replied that upon recommendations of the inquiry report, the reference was submitted to NAB for initiating proceedings, furthermore, a request was also submitted to DC Islamabad for possession of said premises. The lessee filed the case in the honorable court of law against cancellation of orders passed by the NATCO management. The matter is subjudice, however, the management of NATCO is pursuing the case for early settlement. However, the reply is silent regarding disciplinary action against the officers of NATCO involved in the deal.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that the recommendations of the inquiry committee may be implemented in letter and spirit.

#### **4.3.2 Loss due to non-transportation of wheat by contractors – Rs. 8.127 million**

Rule 4(3) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Act and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

The NATCO awarded contract for transportation of 96,551 bags wheat to various stations to different contractors involving transportation cost of Rs.64.216 million during 2020-21.

Audit observed as under:

- i. The contractors did not lift the wheat in accordance with their agreements. Consequently, the wheat was lifted through transport hired from market at higher rates which resulted in a loss of Rs. 8.127 million.
- ii. The management neither imposed any penalty nor blacklisted the contractors despite clear directions of the NATCO BOD.

Audit is of the view that the management extended undue favor to the contractors as neither any penalty was imposed nor did they blacklist them which resulted in loss.

The management replied that NATCO blacklisted the contractors vide office order No. TRF-1(4)/2461, 2451, 2455 & 2460/2020 dated 19th October 2020 and their security has not been released. It is further submitted that NATCO is facing financial crisis. In this specific case, the contractor demanded payment of outstanding bills to supply further wheat and NATCO was not in a position to clear their liabilities and arrange more resources for supply of wheat in snow bound areas on war footing. The reply was not accepted because the management has neither imposed penalty nor forfeited the security of the contractors to cover the loss.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that the responsibility may be fixed for not imposing the penalty and non-implementation of the Board decision.

#### **4.4 Monitoring and Evaluation**

##### **4.4.1 Non-conducting of Internal Audit**

Rule 22(1) of the Public Sector Companies (Corporate Governance) Rules, 2013 states there shall be an internal audit function in every Public Sector Company. The chief internal auditor, who is the head of the internal audit function in the Public Sector Company, shall be accountable to the audit committee and shall have unrestricted access to the audit committee.

The prime objective of establishment of the company as contained in Memorandum of Association was to establish and operate a road transport system in Northern Areas of Pakistan for movement of passengers and goods with in Northern Areas of Pakistan, to and from Pakistan in association with the Government of Pakistan or any agency authorized to associate or co-ordinate.

During the special audit of NATCO for the financial years 2016-17 to 2020-21 it was noted the internal audit of the company was not conducted. In few cases the internal audit wing conducted special audit however, the internal audit of the company as a whole was not conducted on annual basis.

Audit is of the view that non-conducting of internal audit of the company is violation of the provisions of the rules. The management replied that internal audit has been established and each and every voucher is properly pre-audited before making payment. The reply is irrelevant as no internal audit was conducted on annual basis for submission of report to the board.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Mechanism may be devised for internal audit in accordance with the provision of the rules.

##### **4.4.2 Weak Internal controls**

Rule 5 (5) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders.



The prime objective of establishment of the company as contained in Memorandum of Association was to establish and operate a road transport system in Northern Areas of Pakistan for movement of passengers and goods with in Northern Areas of Pakistan, to and from Pakistan in association with the Government of Pakistan or any agency authorized to associate or co-ordinate.

During special audit of the company for the years 2016-17 to 2020-21, the following internal controls weakness were observed.

- i. No centralized system in place for collection and deposit of day to day cash received at different stations
- ii. Lack of timeliness of cash deposits and account reconciliation is noticed in number of cases. The station in-charge handled thousand of rupees daily in cash but no Standing Operating Procedure exists for timely deposit of revenue in company account.
- iii. On passenger and cargo operation heavy expenditure is made on routine repair by the drivers but no mechanism has been made to streamline the system which is considered major operational weakness.
- iv. Due to absence of internal controls a number of cases of frauds involving more than Rs.10 million by the cashiers were noticed.
- v. Numerous bank accounts are opened without any justification
- vi. The company charges insurance funds and security charges for the passengers travelling besides provision of subsidy, concessional tickets to students, free passes to the employees.

Audit is of the view that good internal controls are essential for accomplishment of goals and objectives as they ensure compliance with applicable laws and regulations to avoid risk and fraud.

The management was requested to convene DAC meeting vide letter, dated 26.4.2022 followed by reminders dated 20.5.2022, 01.06.2022 and 10.06.2022. However, the DAC meeting could not be convened till finalization of the report.

Audit recommends that an effective system of internal checks may be formulated in order to ensure compliance with applicable laws and regulations to avoid risk and fraud, securing regularity and propriety transactions and assuring the accomplishment of goals and objectives.

## **5. CONCLUSION**

During special audit it was noted that the company did not formulate any policy to undertake projects for the economic development of the areas. Moreover, no effort was made to co-ordinate and collaborate with other transport companies operating in the Northern Areas of Pakistan to conduct and publish research studies for the promotion of tourism in the areas despite having the mandate. The company could not achieve the objectives as laid down in the memorandum of association except provision of subsidized transport facility in far-flung areas. which was neither reviewed nor upgraded since its implementation.

Moreover, the existing financial management system was neither based on core objectives nor the management formulated any plan to attain the objectives. The management did not formulate any viable business plan, policies nor did they adopt any procedures for implementation of different commercial initiatives and programmes. Furthermore, NATCO also borrowed heavy loans from commercial banks for purchase of buses and for day to day operational activity on high interest rates. Due to un-regulated operations, the company suffered heavy operational losses of Rs.901.434 million.

The main source of revenue of the Company was its passengers and cargo operations through fleet of buses and trucks. The company is running in loss despite having great potential of cargo services and being pioneer in the region. The revenue of the Company from passenger and cargo for the period 2016-17 to 2020-21 was Rs.6,379.329 million including subsidy of Rs.789.803 million received from Government whereas the cost of services was Rs.6,654.246 million.

Audit is of the view that the company operation was managed in disregard with the Public Sector Companies (Corporate Governance) Rules, 2013 and Memorandum of Association of the company. Consequently, due to operational inefficiency, losses were noted during the years 2016-17 to 2020-21.

## **5.1 Key Issues**

- i. Over staffing
- ii. Operational inefficiencies and losses of Rs. 901.434 million
- iii. Un-economical operations of Mountain Filling Stations
- iv. Interest on heavy borrowing from commercial banks
- v. Non-formulation of business plan
- vi. Non-preparation of annual budget
- vii. A number of cases of frauds, involving more than Rs.10 million by the employees, were noticed. Numerous bank accounts are opened without any justification.

## **5.2 Lessons learnt**

Audit is of the view that good internal controls are essential for assuring the accomplishment of goals and objectives as they ensure compliance with applicable laws and regulations to avoid risk and fraud. Presence of effective internal controls and regular monitoring and evaluation of activities should be in place for effective implementation of the company's objectives.



## **ACKNOWLEDGEMENT**

We wish to express our appreciation to the management and staff of the NATCO for the assistance and cooperation extended to the auditors during this assignment.