



**SPECIAL AUDIT REPORT
ON
COMMERCIAL ACTIVITIES
AT AIRPORTS**

CIVIL AVIATION AUTHORITY

**AVIATION DIVISION
GOVERNMENT OF PAKISTAN**

AUDIT YEAR 2016-17

AUDITOR GENERAL OF PAKISTAN

PREFACE

The Auditor General conducts audit subject to Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan, 1973 read with Section 8 of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001. The Special Audit of the Commercial Activities at CAA Airports was carried out accordingly.

The Directorate General Audit Works (Federal), Islamabad conducted Special Audit during 2016-17 for the period from July 2010 to June 2016 to report significant findings to stakeholders. Audit examined the economy, efficiency, and effectiveness aspects of the activities. In addition, Audit also assessed, on test check basis, whether the management complied with applicable laws, rules, and regulations in managing the activities. The Audit Report indicates specific actions that, if taken, will help the management realize the objectives of the activities. Audit observations included in the Report have been finalized in the light of written responses of the management. However, the Report could not be discussed in the Departmental Accounts Committee meeting despite repeated efforts.

The Audit Report is submitted to the President in pursuance of Article 171 of the Constitution of the Islamic Republic of Pakistan, 1973 for causing it to be laid before both houses of Majlis-e-Shoora (Parliament).

Islamabad
Dated: 20th May, 2019

Sd/-
(Javaid Jehangir)
Auditor General of Pakistan

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ABBREVIATIONS AND ACRONYMS

BBIAP	Benazir Bhutto International Airport
BKIAP	Bacha Khan International Airport
CAA	Civil Aviation Authority
CAAO	Civil Aviation Authority Order
CAAR	Civil Aviation Authority Rules
CEO	Chief Executive Officer
CIP	Commercially Important Persons
CTC	Cargo Throughput Charges
CCTV	Close Circuit Television
CMPP	Commercial Planning and Policy
CUTE	Common Use Terminal Equipment
DAC	Departmental Accounts Committee
DGCAA	Director General, Civil Aviation Authority
EDFS	Euro Duty Free Shop
EGT	Euro Gulf Trading
GHA	Ground Handling Agent
HQ	Headquarters
JIAP	Jinnah International Airport
JTC	Jinnah Terminal Complex
MD	Managing Director
MIAP	Multan International Airport
MOU	Memorandum of Understanding
NIIAP	New Islamabad International Airport
NOC	No Objection Certificate
PCAA	Pakistan Civil Aviation Authority
PM	Prime Minister
PPRA	Public Procurement Regulatory Authority
P&D	Planning & Development
RFP	Request for Proposal
SA	Special Assistant

SAPS	Shaheen Airport Services
SOP	Standard Operating Procedure
TCS	Tranzum Courier Services (TCS)
US	United States

EXECUTIVE SUMMARY

The Directorate General, Audit Works (Federal) conducted Special Audit of Commercial Activities at Airports maintained by Civil Aviation Authority during 2016-17. The report covers commercial activities for the period from July 2010 to June 2016. The main objective of the Special Audit was to assess whether planning for commercial utilization of spaces, lands and shops etc., was appropriate and the resources had been utilized with due economy, efficiency and effectiveness. The report is not only aimed at accountability process but also intends to carry out analysis of management decisions by highlighting the weaknesses in the performance of the commercial activities and, thereby, providing recommendations for future improvement.

Major audit findings are as under:

- i. Non-transparent/lack of competition in tendering process for award of the concessions of Cargo Throughput - Rs 6,357.444 million (Para 4.1);
- ii. Loss to Authority due to encroachment on 309.62 acres land (Para 4.20);
- iii. Non-recovery of rent and space charges from licensees - Rs 4,684.678 million (Para 4.19);
- iv. Non-recovery of space charges on revised rates - Rs 252.948 million (Para 4.3);
- v. Loss due to relaxation in Land Lease Policy at new Islamabad Airport - Rs 185.043 million (Para 4.4);
- vi. Loss due to award of concession on lesser rates and without tendering - Rs 119.538 million (Para 4.5);
- vii. Loss due to incorrect enhancement in license fee - Rs 27.070 million (Para 4.7);

- viii. Loss due to non-observance of Policy & Procedure - Rs 23.00 million (Para 4.9);
- ix. Loss due to mismanagement and improper decision - Rs 15.516 million (Para 4.11);
- x. Less recovery of rent from the licensee - Rs 14.432 million (Para 4.12).

Based on the audit findings, it is recommended that:

- i. Civil Aviation Authority's Commercial Policy CAAO-004-CMPP-1.0 may be reviewed and aligned with Public Procurement Rules, 2004;
- ii. Measures be taken to remove encroachments on Authority's lands and structures;
- iii. All outstanding dues be realized in time and deposited in the Authority's account;
- iv. Fact finding inquiries and disciplinary actions be initiated to fix responsibility in respect of cases involving losses and irregular award of license for concessions.

1. INTRODUCTION

The Directorate General, Audit Works (Federal) conducted Special Audit of Commercial Activities at Airports maintained by Civil Aviation Authority during 2016-17. The report covers commercial activities carried out by Civil Aviation Authority for the period from July 2010 to June 2016.

Pakistan Civil Aviation Authority (PCAA) established on 7th December, 1982 is a public sector autonomous body working under the Government of Pakistan through Cabinet Secretariat (Aviation Division). All kinds of civil aviation related activities are performed by the Civil Aviation Authority including regulatory, air traffic services, airport management, infrastructure and commercial development at the airports.

A description of the activity under audit is narrated below:

i) Commercial Activities at Airports

The Authority, besides facilitation to the passengers, meeters and greeters, earn substantial amount of revenue from commercial activities at airports by awarding of licenses for short period from three to five years for shops, restaurants, banks, money exchange counters, tuck shops, rent-a-car counters, mobile phone shops, advertisement rights and stationery shops etc. through open tenders. Award of licenses also includes semi commercial licenses for award of open spaces for longer period at CAA's prescribed space rental charges for office spaces, spaces for airline hangers and Flying Schools etc. Commercial activities also involves award of open land on lease basis for thirty (30) years for hotels, petrol pumps, offices, shopping malls etc. Civil Aviation Authority monitors these activities through its Commercial and Estates Directorate at CAA Headquarters, Karachi.

Handling of Cargo at airports is a major commercial activity and a potential source of income. Civil Aviation Authority collects Cargo

Handling Facility Charges @ US\$ 10 per ton on all export cargo from Karachi, Lahore, Islamabad, Peshawar, Faisalabad, Quetta and Multan Airport. All import cargo has been outsourced by the Authority and contractors control the cargo by paying monthly license fee to the Authority. The Cargo functions are controlled by the Directorate of Airport Services, HQ Civil Aviation Authority Karachi through their respective Cargo Managers at the Airports.

ii) Regulations for Commercial Activities

The Non-Aeronautical Commercial Activities operated by the Directorate of Commercial & Estates and Directorate of Airport Services Headquarters CAA, Karachi under the following rules and regulations:

- **Commercial Licenses/Concessions**

The award and execution of commercial licenses for shops, restaurants, advertisement rights, banks etc. are monitored under the provisions of Civil Aviation Order (CAAO) 004-CMPP-1.0 regarding Policy and Procedure for Grant of Business Licenses at Airports and other Standard Operating Procedures (SOPs) and Directives issued from time to time. The CAAO covers estimation, tendering and monitoring of the commercial licenses awarded for short period of time. The Policy was initially introduced in the year 1984 and subsequently revised in 2001, 2012 and 2014. At present, there are 1,000 business licenses at various locations throughout Pakistan.

- **Land Lease Agreements**

The award of land and execution of Leases for Hangers, Construction of Offices, Shopping Malls and Hotels etc., are monitored under the provisions of CAA Land Lease Policy CAAO-01-CMES-1.0 and other Standard Operating Procedures (SOPs) and Directives issued from time to time. However, the Land Lease Policy covers fixation of rates of land, estimation, tendering and monitoring of the leased land. The policy was initially introduced in the year 1984 and subsequently revised

in 2001, 2012 and 2015. At present, the Authority owns 26,323.02 acres of land. There are 40 active lease agreements executed with various parties at four major airports i.e. Karachi, Lahore, Islamabad and Multan.

- **Cargo Functions**

The Cargo functions of the Authority are carried out under the following manual and Civil Aviation Authority Orders (CAAOs):

- Cargo Manual
- CAAO-001-ASCG (Collection of Data for Cargo Handling Facility Charges at Locations)
- CAAO-005-ASCG (Management of Cargo Complexes/Terminal and Air Cargo Operations)

2. AUDIT OBJECTIVES

The main objectives of the audit were to see whether:

- Civil Aviation Authority Orders (CAAO's), Standard Operating Procedure (SOP), Management Directives and other rules/regulations on the subject matter were followed;
- effective measures were taken by the management in planning and processing the commercial use of the available spaces/premises;
- resources had been utilized with due economy, efficiency and effectiveness and intended objectives have been achieved?

3. AUDIT SCOPE AND METHODOLOGY

3.1 Scope

Commercial activities of CAA during the last six years were reviewed, as detailed below:

S. No.	Financial Year	Revenue from commercial activities (Rs in million)
1	2010-11	3,334.417
2	2011-12	3,587.262
3	2012-13	4,093.887
4	2013-14	4,865.890
5	2014-15	4,948.954
6	2015-16	5,370.083
	Total	26,200.493

3.2 Methodology

Audit methodology included the following:

- i. Understanding the organization and activity;
- ii. Defining audit objectives;
- iii. Developing audit procedures;
- iv. Conducting audit as per audit procedures;
- v. Evaluating results;
- vi. Reporting.

4. AUDIT FINDINGS AND RECOMMENDATIONS

4.1 Non-transparent/lack of competition in tendering process for award of the concessions of Cargo Throughput - Rs 6,357.444 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 32 further provides that no procuring agency shall introduce any condition, which discriminates between bidders or that is considered to be met with difficulty. In ascertaining the discriminatory or difficult nature of any condition, reference shall be made to the ordinary practices of that trade, manufacturing, construction business or service to which that particular procurement is related.

Audit noted that Civil Aviation Authority invited tenders for award of licenses for collection of Cargo Throughput Charges (CTC) at Karachi, Lahore, Islamabad, Multan and Faisalabad Airport for five years with 10% annual enhancement in license fee during subsequent years.

Audit observed that at the time of tendering a condition regarding relevant experience of collection of cargo throughput charges was included in the bidding documents, which was clearly a favour to the existing licensees. It was further observed that due to this condition all the other potential bidders were disqualified and all the existing licensees won/qualified the tenders. This resulted in non-transparent tendering process with lack of competition for the concessions valuing Rs 6,357.444 million.

Audit pointed out the non-transparent tendering during February-March 2017. The Authority replied that relevant experience clause is a

standard clause, which is common in all the tenders. Moreover, the disposal of concession, for collection of Cargo Throughput Charges in accordance with International Air Transport Association (IATA) Tariff, resulted in considerable revenue for CAA. Therefore, CAA required experience from bidders to ensure the effectiveness and efficiency of the concession. It is pertinent to mention that PPRA rules and CAA policy do not bar CAA from requiring of experience/ technical knowledge/ expertise from its potential bidders. The reply was not acceptable because evidence regarding disposal of concessions for collection of cargo throughput charges in accordance with IATA was not provided.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and more competitive tendering be carried out in future.

(Para 31)

4.2 Lack of planning in land acquisition - Rs 450.390 million

As per para 2.1 of Project Management Guidelines, the objective of development planning is to have projects implemented for the benefit and social uplift of the society. For achievement of stipulated targets and tangible returns, it is imperative to entrust management and supervision of the project during implementation stage to capable and competent persons of required qualifications, experience and caliber.

Audit noted that the Prime Minister of Pakistan directed for establishment of an Airport in Mansehra in the year 2014 through Public Sector Development Programme. In this connection, Civil Aviation Authority was selected as executing agency for establishment of airport. The Authority selected a piece of land measuring 6,301 Kanal (i.e. 787.625 acre) for acquisition in eight (08) Mauzas i.e. Lassan Nawab, Dhairy, Palsala, Kund, Sawan Maira, Bandi Karagwal, Jisgran Payeen and Jisgran Bala. An amount of Rs 450.390 million was paid by the Authority for the said land.

Audit observed that after notification of compulsory acquisition under Section-IV of Land Acquisition Act, and payment of Rs 450.390 million, the Authority informed the LAC that the land was not feasible and addition/deletion of 160 acres land is required. Audit is of the view that at that time when Section-IV for the land was notified and payment of land was also made, hence at the later stage, addition/deletion of land was unjustified. This position shows that proper planning/survey of the land was not done prior to initiating the Land Acquisition. This depicts lack of planning in land acquisition valuing Rs 450.390 million.

Audit pointed out the issue in February-March 2017. The Authority replied that the plan of the Airport is prepared by the Flight Procedure Design Branch. The Airport site is located between the high mountains. During execution process, the affectees approached the Aviation Division through their local MNA to revise the plan by excluding the villages of Dhaman Dherry, Jasgran Payin and Jasgran Bala. People also started resistance in the land acquisition and submitted an application to Deputy Commissioner Mansehra with the request that Airport should be constructed at the site excluding the villages/houses. Due to sensitivity of the matter, plan of Airport has been revised which has saved huge amount to be paid for compensation of houses of three villages and orchard/trees at village Kund. The para may be kept pending till final award. Further, proper feasibility would be carried out prior to acquisition of land and payment thereof to avoid such situation.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the persons responsible.

(Para 33)

4.3 Non-recovery of space charges on revised rates - Rs 252.948 million

Para D3.14.5 of CAAO-004-CMPP-1.0 (dated 01.11.2012) regarding Policy and Procedure for grant of business licenses at CAA

Airports states that concessions, which involve capital expenditure for construction of building and infrastructure etc, are allotted for a period of 10 years. However, on completion of 5 year initial term of allotment, open space charges and license fee shall be revisited because initial expenditure would have been recovered by then. This condition shall also be appropriately included in the license agreement. Covered space charges shall be applied as per CAA prescribed rate for space rentals after expiry of 10 years. Further, the clarification issued by the CAA Headquarters vide No. HQCAA/2839/2508/Com dated 21st March, 2007 described that “as per policy, after expiry of license agreement, the superstructure shall vest in favour of CAA. Any construction on open space during the license period and hard standing made by the licensee shall also be charged after the expiry of existing license agreement as per rate applicable”.

Audit noted that Civil Aviation Authority awarded open spaces to M/s Shaheen Airport Services (SAPS) measuring 182,988 sft and 175,760 sft for Cargo space and Transom Courier Services (TCS) Area respectively on 6th April, 2003 on CAA’s prescribed space charges.

Audit observed that since 2003, the said spaces were in the possession of M/s SAPS and license was renewed from time to time. The space was in possession of the licensee for more than ten years. After completion of 05 years period, open space charges and license fee were not revisited. This resulted in non-recovery of Rs 252.948 million, as detailed below:

Period	Area (Sft)	Charges applied (Rs per Sft)	Charges to be applied (Rs Per Sft)	Diff-erence Per Month	Months	Total
1.7. 2013 to 30.6. 2013	358,548	5.18	18.83	13.65	12	58,730,162
1.7.2014 to 30.6. 2015	358,548	5.70	20.71	15.01	12	64,581,666
1.7.2015 to 30.6.2016	358,548	6.27	22.78	16.51	12	71,035,530
1.7. 2016 to 31.3. 2017	358,548	6.90	25.06	18.16	9	58,601,085
Total						252,948,443

Audit pointed out the non-recovery at revised rates in February - March 2017. The Authority replied that approval was conveyed to Airport Manager, Allama Iqbal International Airport, Lahore for renewal/ execution of licence agreement with M/s SAPS and to levy space charges as per current / actual physical specifications of space measuring 182,988 Sq.ft and space measuring 175,560 Sq.ft. The reply was not tenable because no recovery was effected at revised rates.

The para could not be discussed in DAC meeting.

Audit recommends to revise the rates at the earliest and recovery be made from the licensee.

(Para 27)

4.4 Loss due to relaxation in Land Lease Policy at new Islamabad Airport - Rs 185.043 million

As per Land Lease Policy of the Civil Aviation Authority, the Annual Ground Rent for the land will be increased @ 8% per annum on cumulative basis from 2nd to 30th year.

Audit noted that Civil Aviation Authority invited tenders for lease of land of 2000 Sq Yds at new Islamabad Airport for establishment of Petrol Pump and Gas Station with complete servicing facilities. In response, M/s Attock Petroleum Ltd. stood the highest bidder with bid cost of Rs 81,100 per Sq Yd. The land was awarded to them on their bid cost through letter No. HQCAA/1917/325/CMER/I dated 21st December, 2016. The amount of premium was fixed as Rs 54,066,666 and the Annual Ground Rent as Rs 5,406,666 for the 1st year.

Audit observed that the enhancement ratio of Annual Ground Rent was fixed @ 6% during 2nd to 30th year on cumulative basis instead of 8% as per Land Lease Policy. Audit is of the view that Land Lease Policy is the main guideline for lease of CAA land throughout Pakistan hence,

relaxation in policy for a specific city is unjustified. This resulted in loss of Rs 185.043 million.

Audit pointed out the issue in February-March 2017. The Authority replied that the relaxation was given with the approval of CAA Board. The reply was not tenable because there was no such provision in the approved land lease policy of the Authority. The Authority should review its policy and make necessary amendments to provide equal opportunities at other airports.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s) for the loss.

(Para 37)

4.5 Non-transparent award of concession on lesser rates - Rs 119.538 million

As per para D.3.2.3 of Policy and Procedure for grant of business concessions at airport, “reserve price for the existing concessions shall be calculated after adding 5% over and above the current year’s license fee. Further as per Rule-12(2) of Public Procurements Rules 2004 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 a concession of Passenger Lounge for Emirates Airlines passengers at Jinnah International Airport Karachi was awarded to M/s Emirates Airline on 19th October, 2012 for five years at monthly license fee of Rs 2,050,000 per month with 10% enhancement in license fee during subsequent years. Audit further noted that the subject concession was not materialized due to reservations of the Emirates Airline.

Audit observed that the said concession was later on awarded to M/s Gerrys D'nata on 26th May, 2016 for seven years at monthly license fee of Rs 1,000,000 per month plus US\$ 3 per passenger without calling open tenders. Audit further observed that the license fee was fixed as Rs 1,000,000 whereas, four years before, the concession was awarded @ Rs 2,050,000 per month. This resulted in violation of PPRA Rules and Civil Aviation Authority's Order on commercial activities besides revenue loss of Rs 119.538 million. Audit is of the view that the license fee was required to be fixed over and above 5% of the previous license fee because per passenger charges were just on assumptions and actual revenue could not be calculated before operations of the lounge. Moreover, the license was granted for a period of seven years which was also in violation of policy because the policy allows initially award the license for five years.

Audit pointed out the loss in February-March 2017. The Authority replied that in 2012, the old CIP (Commercially Important Person) Lounge located at mezzanine level-I of the International Departure was awarded to M/s Emirates Airline @ Rs 2,050,000 per month with the approval of Director General CAA, however, the establishment of Lounge could not be materialized due to pressing demands of Emirates for changes in the agreement. In 2015, M/s Emirates Airline once again requested for allotment of said lounge on similar conditions with little alteration in the agreement i.e. non-levy of annual escalation and exemption from payment of cash security etc, hence their request was not considered. Later on, M/s Gerry's Dnata showed interest in the same lounge and offered Rs 700,000 per month plus 3 US\$ per passenger to CAA. Subsequently, the request of M/s Gerry's Dnata was processed to the competent authority, wherein license fee of Rs 1.00 million plus 3 US\$ per passenger was recommended with due analysis of estimated revenue for the allotment. Accordingly, the competent authority approved the proposal. The approved proposal is more lucrative than license fee of Rs 2,050,000 per month. It is highlighted that PPRA is not strictly applicable on Licensing of Commercial concessions and such licensing is governed by CAAO 11-04 in CAA. Furthermore, clause D3.4 is applicable regarding the period of license instead of clause D3.3, therefore, the period of license is not in

violation of CAAO 11-04. Since the previous license could not be materialized @ Rs 2,050,000 per month, therefore, 5% over and above Rs 2,050,000 per month is not applicable. Rule 4 of Public Procurement Rules, 2004 states that “object of procurement brings value for money to the agency and the procurement process is efficient and economical”. Since the option of Rs 1,000,000 per month plus 3 US\$ per passenger is more lucrative than Rs 2,050,000 per month, therefore, CAA is not in violation of PPRA Rules by opting the former. The reply was not tenable because the case was processed in violation of approved policy in terms of reserve price and period of license.

The para could not be discussed in DAC meeting.

Audit recommends that matter be investigated and action be taken against the responsible(s) for the loss.

(Para 44)

4.6 Loss due to mismanagement US\$ 5,519,558 and Rs 75.096 million

Para D.15 of Civil Aviation Authority Order CAAO-004-CMPP-1.0 (dated 01.11.2012) regarding Policy and Procedure for grant of business licenses at CAA Airports provides that it is the personal duty of the concerned Airport Managers to ensure that all charges on account of license fee, etc. are realized from the licensees as soon as the charges are due. Clause 3(b) of the standard license agreement provides ‘if the license fee or any part thereof shall be in arrears for a month or more after the same has become due whether demanded or not, the Airport Manager/licensor may impose financial charges @ 10% above the bank rates or impose a fine @ Rs 1,000 for each day of such delay’.

Audit noted during special audit of commercial activities of Civil Aviation Authority that contract for installation and running of Common User Terminal Equipment (CUTE) was executed with M/s Shaheen Airport Services (SAPS) at Lahore on dedicated basis for a period of three (3) years w.e.f 18th March, 2003 to 17th March, 2006 on monthly license

fee of Rs 10,000 per counter for ten counters plus additional charges of US\$ 0.06 per passenger under approval of DGCAA dated 23rd January, 2004. Later on, the earlier approval was cancelled and revised approval was accorded on 23rd August, 2005 for re-execution of agreement with M/s SAPS @ US\$ 0.30 per check-in inclusive of system usage and allied charges for a period of five (5) years in accordance with terms & condition of license agreement with M/s SAPS at Jinnah International Airport Karachi. It was further noted that Director Airport Management conveyed NOC in June, 2001 for Installation of CUTE system on 14 check-in counters in international departure (Briefing area) at Benazir Bhutto International Airport (BBIAP) and formal approval was conveyed for execution of license agreement @ 0.17 per check-in w.e.f 28th June, 2001 to 1st October, 2009 for regularization purposes and US \$ @ 0.30 per check-in from 1st October, 2009 onwards.

Audit observed that since the approvals, M/s SAPS has neither executed license agreements despite a lapse of a period of 14 to 17 years nor paying charges for utilizing the system. A review of the record showed that an amount of US\$ 4,198,214 and US\$ 1,321,344 was recoverable upto April, 2016 on account of CUTE system at Lahore and Islamabad respectively. It was further observed that in addition to the CUTE charges, counter charges @ Rs 100,000 and Rs 140,000 pm respectively were also not paid by the licensee.

Audit holds that due to non-execution of agreement, the Authority's accounts remained understated by an amount of US\$ 5,519,558 and Rs 75.096 million, as detailed below:

Airport	CUTE Charges	Counter Charges
Lahore	US\$ 4,198,214	Rs 21,718,652
Islamabad	US\$ 1,321,344	Rs 53,377,769
Total	US\$ 5,519,558	Rs 75,096,421

Further, Authority also sustained a loss on account of bank interest at least 8% per annum or on account of non-imposition of fine of Rs 4.680

million for delay in payment of dues. (Rs 1,000 per day x 360 days x 13 years)

Audit pointed out the issue in February-March 2017. The Authority replied that M/s SAPS has disputed CUTE System charges payable to CAA, and has thus not executed the license agreement. However, the amount of \$4,198,214 claimed from M/s SAPS is arbitrary and based on unilateral rates applied on assumed passenger traffic figures by HQCAA. The process for reconciliation of passenger traffic is underway. The applicable charges for usage of CUTE System will be finalized with SAPS upon receipt of reconciled data of passenger traffic from Additional Director Billing HQCAA. The reply was not convincing because Authority could not reconcile recovery in accordance with the agreement.

The para could not be discussed in DAC meeting.

Audit recommends that the matter be investigated and action be taken against the responsible(s) for the loss.

(Para 09)

4.7 Loss due to incorrect enhancement in license fee - Rs 27.070 million

As per introduction to Civil Aviation Authority Order (CAAO) 11-4, the Civil Aviation Authority has a variety of lands, open spaces, shops, and counters, etc, which are potential source of regular income through their commercial exploitation by granting licenses for their use from time to time.

Audit noted that Civil Aviation Authority (APM Lahore) awarded a license for “Development of Branding/Advertisement at AIIAP Lahore on BOT basis” to M/s Gizelle Communication (Pvt) Ltd for five years from 19th July, 2012 to 18th July, 2017 (extendable for further five years) at monthly license fee of Rs 475,786 with cumulative enhancement in the license fee @ 12.5%, 15%, 17.5% and 20% during 2nd, 3rd, 4th and 5th year. Audit further noted that before expiry of agreement, an addendum was

signed to extend further period of five years from 19th July, 2017 to 18th July, 2022.

Audit observed that while making addendum for extension of period, the license fee was enhanced incorrectly as 12.5%, 15%, 17.5%, 20% and 22.5% during 6th, 7th, 8th, 9th and 10th year instead of 22.5%, 25%, 27.5%, 30% and 32.5%. Audit is of the view that as per agreement, the license fee was to be enhanced on cumulative basis. Increase from 12.5% to 22.5% was already imposed during previous five years term. For new five years term, the licence fee was to be increased at the rate of 22.5%, 25%, 27.5%, 30% and 32.5% instead of again starting from 12.5%. This resulted in loss of revenue due to incorrect increase of Rs 27.070 million as detailed below:

(Amount in Rs)

Period	Fee charged	Fee to be charged	Diff	Months	Loss
19.7.2017 to 18.7.2018	976,413 (@ 12.5%)	1,063,204 (@ 22.5%)	86,791	12	1,041,492
19.7.2018 to 18.7.2019	1,122,875 (@ 15%)	1,329,005 (@ 25%)	206,130	12	2,473,560
19.7.2019 to 18.7.2020	1,319,378 (@ 17.5%)	1,694,481 (@ 27.5%)	375,103	12	4,501,236
19.7.2020 to 18.7.2021	1,583,254 (@ 20%)	2,202,825 (@ 30%)	619,571	12	7,434,852
19.7.2021 to 18.7.2022	1,939,486 (@ 22.5%)	2,907,729 (@ 32.5%)	968,243	12	11,618,916
Total					27,070,056

Note. (Base rate was 5th year's license fee Rs 867,922 per month)

Audit pointed out the loss in February-March 2017. The Authority replied that the license fee to be paid by the licensee in last / fifth year of the contract i.e. Rs 867,923 was enhanced by 12.5% instead of 22.5% owing to low business potential of the concession. Extending the tenure with 22.5% enhancement was not feasible for PCAA as well, because the same would have increased the licensee fee to the level of Rs 1,063,204 which is much higher than the business potential of the concession, and no

rational investor would enter into any business agreement. The reply was not tenable because the action of the Authority was not covered under the prevailing policy of Authority. The Authority should review its policy and make necessary amendment to overcome such situation.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s) for the loss.

(Para 24)

4.8 Non-transparent tendering for award of concession - Rs 25.200 million

PPRA Rule-4 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.

Audit noted that Civil Aviation Authority invited tenders for award of concession of Duty Free Shop at Islamabad Airport on 19th February, 2016. Audit further noted that only one bidder M/s Euro Duty Free Shop participated in the tender. The Authority technically qualified the bidder with 100% marks and the concession was awarded for two years at monthly license fee of US\$ 10,000 with 10% annual enhancement during 2nd year.

Audit observed that M/s Euro Duty Free Shop was not eligible for the concession due to the following reasons but the concession was awarded to them by manipulating the technical qualification process:

- The firm M/s Euro Duty Free Shop was incorporated as a limited company w.e.f. 22nd December, 2012. In the profile submitted by M/s EDF, they represented themselves as sister concern of Euro Gulf Trading Co. of which no legal document or evidence was submitted.

- According to bank statements, M/s EDF maintaining its bank accounts since 11th February, 2014. The Company provided bank statements for two years instead of three but the Tender Opening Committee granted full marks.
- M/s EDF submitted audited financial statements of M/s Euro Gulf Trading Co. for the year 2013, 2014 & 2015 and also of another firm Euro Consortium for the year 2012, 2013 & 2014. The financial statements of other firms have no concern as their documents cannot be examined to establish the financial health of M/s EDF.
- M/s EDF has provided documentary evidence for 3-4 months only.
- M/s EDF has not submitted details of its Directors and CEO or MD.

Due to above noted facts, it is very clear that the Technical Qualification was manipulated just to favour the bidder. This resulted in non-transparent tendering process for the concession valuing Rs 25.200 million (US\$ 252,000 x 100).

Audit pointed out the issue in February-March 2017. The Authority replied that M/s Euro Duty Free Shop (Pvt) Ltd., obtained the tender documents for participation in the subjected tender, therefore, M/s Euro DFS documents were examined and evaluated by the Tender Opening Committee (TOC) with due deliberation despite the fact that Euro Consortium documentations were also attached with their technical offer. As regard the legal status of M/s Euro DFS (Pvt) Ltd., it does not represent itself as a sister concern of Euro Gulf Trading (EGT) Company; however, it was established as a result of expansion of business by EGT. Since, M/s Euro DFS (Pvt) Ltd. is a separate entity established under the Companies Ordinance 1984; therefore, their technical offer was scrutinized accordingly. As a result of proper scrutiny of their required documents, they were declared technically qualified by the Tender Opening Committee. Furthermore, upon detailed review of the tender documents by the Legal Branch, HQCAA, the concession was awarded to M/s Euro Duty Free (Pvt.) Ltd. on the basis of legal grounds highlighted

by Legal Branch, HQCAA. The reply was not acceptable. The Company was technically qualified with 100% marks despite provision of bank statements for two years instead of three years and mis-statement of being sister concern of M/s Euro Gulf without evidence.

The para could not be discussed in DAC meeting.

Audit recommends investigation and action against the responsible(s) for irregular award of contract.

(Para 28)

4.9 Loss due to non-observance of Policy and Procedure - Rs 23.00 million

Para D 1.2 of Policy & Procedure for Grant of Business License at CAA Airports denotes that “the underlying basic principles set out in PPRA, 2004 need to be followed in this regard viz:-

D1.2.1 Fair and Transparent manner to be adopted

D1.2.2 Procurements of Services (commercial concessions) brings value/revenue for CAA; and

D1.2.3 Process involved is efficient and economical.

Audit noted during special audit of Commercial Activities of Civil Aviation Authority that contract period with M/s Air Gate International for collection of cargo throughput charges in Terminal-III at Jinnah International Airport, Karachi for the period October 2007 to July 2009 was regularized at the rate of 5%. It was further noted that same concession was again awarded for the period 28.07.2009 to 27.07.2013 at monthly license fee @ Rs 25,942,050 with annual cumulative enhancement @ 15% during the subsequent years.

Audit observed that an inquiry was conducted by FIA Anti-Corruption Circle on cargo throughput charges matter and made following recommendations as communicated by the Cabinet Secretariat (Aviation Division) to CAA for clarification/action:

- a. Regularization of contract period with M/s Air Gate International (October, 2007 to July, 2009) at the rate of 5% was against the existing policies and procedures of CAA. It should have been regularized @ 10%. Thus, CAA sustained a loss of Rs 23 million (approx).
- b. Issuance of a bill of Rs 23 million to M/s Air Gate International being recoverable amount.
- c. Suggestion of FIA regarding review of CAA policy for tendering of CTC (Cargo Throughput Charges).

Audit further observed that no action has been initiated by the management to clarify the issues/ effect recovery from the licensee/ person responsible. Audit holds that non-compliance of the recommendations resulted in a loss of Rs 23 million.

Audit pointed out the issue in February-March 2017. The Authority replied that reply on the said matter has already been furnished to Aviation Division and further decision on the case is awaited. Since the subject case is already before standing committee, therefore it is requested to delete para. The reply was not acceptable. Recommendations of FIA have not been implemented.

The para could not be discussed in DAC meeting.

Audit recommends pursuance of the matter for early finalization of the case.

(Para 49)

4.10 Loss on account of license fee - Rs 18.750 million

The Director General, Civil Aviation Authority approved tender for grant of license for Establishment & Operation of three Branded Food Outlets along-with Kitchen facility at BBIAP, Islamabad for a period of five (5) @ 10% cumulative annual enhancement during subsequent years

for publication in press as per following details vide para 7 of M-2 (File No. HQCAA/1911/920/CMCN) on 14th November, 2014:

S. No	Concession	Area/Space in Sft	Reserved Price
1	Branded food Outlet	700 sft for kitchen in car parking +130 sft in international departure lounge	Rs 300,000 in addition to space charges
2	Branded food Outlet	400sft for kitchen in car parking +130 sft in international departure lounge	Rs 300,000 in addition to space charges
3	Branded food Outlet	500 sft international departure lounge	Rs 300,000 in addition to space charges

Audit noted during special audit of Commercial Activities of Civil Aviation Authority that the said concessions were awarded as under:

S. No.	Concession	Bidder	Area/Space in Sft	Reserved Price	Period
1	Branded food Outlet	M/s Captain Management (Pvt) Ltd	840 sft for kitchen in car parking +130 sft in international departure lounge +130 sft in Domestic departure lounge	Rs 360,000 space charges	21.03.2015 To 20.03.2017 Extended upto 31.08.2017 or till commencement of operation at NIIAP whichever is earlier
2	Branded food Outlet	M/s MCR (Pvt) (Burger King)	630 sft for kitchen in car parking +130 sft in international departure lounge	Rs 152,000 space charges	Cancelled

S. No.	Concession	Bidder	Area/Space in Sft	Reserved Price	Period
3	Branded food Outlet	M/s Phoenix (Pvt) Ltd	410 sft international departure lounge	Rs 86,100 space charges	21.03.2015 To 20.03.2017 Extended upto 31.08.2017 or till commencement of operation at NIIAP whichever is earlier

Audit observed that despite the approved manner of the tender, tenders were invited and opened on 28.02.2015 on the basis of space charges without considering reserved license fee which was required in addition to space charges. Further, it was observed that spaces mentioned in tender were also increased in cases at S. No.1 and 2 above whereas, in third case the space was reduced by 90 sft although this concession was cancelled due to non-completion of contractual obligation on 2nd September, 2015. Non-observance of the approved criteria, the Authority has sustained loss on account of license fee amounting to Rs 18.750 million.

Audit pointed out the issue in February-March 2017. The Authority replied that initially, tenders were invited for establishment of International Fast Food Chains at BBIAP Islamabad on monthly license fee of Rs 300,000 plus applicable space charges. However, no party participated in the said tender proceedings. Subsequently, upon instructions of Aviation Division, a meeting was held on 20th January, 2015 under the chairmanship of Special Assistant to Prime Minister on Aviation. The said meeting was attended by Secretary Aviation, DGCAA, Director Commercial & Estates, and C.E.O of Pizza Hut / Burger King, wherein, SA to PM on Aviation suggested that Rs 200 per sq.ft per month may be charged from multinational Food Chains. Accordingly, revised rate with revised terms & conditions was approved by DGCAA for

invitation of tenders for establishment of Fast Food Outlets at BBIAP Islamabad at reserve price of Rs 200 per sq.ft per month. The reply was not tenable because such provision did not exist in prescribed & approved CAA policy.

The para could not be discussed in DAC meeting.

Audit recommends investigation and action against the responsible(s).

(Para 17)

4.11 Loss due to mismanagement and improper decision - Rs 15.516 million

As per introduction to CAAO 11-4, the Civil Aviation Authority has a variety of lands, open spaces, shops, and counters etc, which are potential source of regular income through their commercial exploitation by granting licenses for their use from time to time.

Audit noted that Director Commercial and Estates CAA awarded a concession for branding outside 12 Avio-bridges at JTC JIAP Karachi to M/s Outdoor Services at monthly license fee of Rs 701,300 for three years from 9th January 2013, to 8th January 2016. The license fee was fixed with 12.5% and 15% enhancement during 2nd and 3rd year.

Audit observed that agreement for the said concession was signed. After signing the agreement, Director Airport Services directed the Commercial section not to execute the license and showed concerns over corrosion of the metallic body of the boarding bridges due to pasting of advertisement by the previous licensee. The licensee was not allowed to paste his advertisements on the bridges and concession was cancelled on 21st July 2014. Later on, the Concession was awarded to M/s Gizzle Communication from 1st November 2014 for five years. Audit is of the view that the licensee was agreed to carry out all painting work with standard paint. Hence, cancellation of his Concession was unjustified and also resulted in a revenue loss of Rs 15.516 million as detailed below:

License Fee	Period	Loss (Rs)
701,300	09.01.2013 to 08.01.2014	8,415,600
788,963	09.01.2014 to 30.10.2014	7,100,667
Total		15,516,267

Audit pointed out the matter in February-March 2017. The Authority replied that Special Assistant to Honorable Prime Minister during visit of JIAP Karachi directed to place brand advertisement on external side of Avio Bridges at the earliest. Subsequently, on the direction of Special Assistant to Prime Minister, the concession was restored and tenders were invited with 5% enhancement in Reserve Price. As the direction was received from Special Assistant to Prime Minister, therefore, compliance was made, accordingly. The reply was not tenable because the licensee was ready to abide by any kind of instructions from the Director Airport Services; hence cancellation of concession resulted in a huge loss of revenue to the Authority due to imprudent decision.

The para could not be discussed in DAC meeting.

Audit recommends investigation and action against the responsible(s).

(Para 51)

4.12 Less recovery of rent from the licensee - Rs 14.432 million

As per introduction to CAAO 11-4, the Civil Aviation Authority has a variety of lands, open spaces, shops, and counters etc, which are potential source of regular income through their commercial exploitation by granting licenses for their use from time to time.

Audit noted that Director, Commercial and Estates, CAA Karachi allotted a piece of land measuring 21,924 square feet to M/s Karachi Aero Club (KAC) at hanger No. 301 at Jinnah International Airport Karachi in 1985. The area consists of following specifications:

- Office Block (Covered Space) 3,415 sq. ft.
- Hanger 6,952.50 sq. ft.
- Open area 11,556.37 sq. ft.

Audit further noted that out of total area, an area of 9,036 sq. ft. was taken over by the Authority from the Karachi Aero Club in the year 2009.

Audit observed that the above spaces were in occupation of the licensee from 1985 but the Authority did not impose the applicable charges on whole of the area. From 1985 to 1999, the Authority charged Rs 0.50 per sq. ft. on space measuring 7,242 sqft instead of whole area of 21,924 sqft till 2009 and after that 12,888 sqft (21,924 - 9,036 sqft). After that, fixed amount of Rs 10,000 per month was charged from the licensee till October 2009 on the same area. After October 2012, space charges of Rs 170,622 per month were charged which was enhanced @ 10% after each year. Audit is of the view that the prescribed space charges were not imposed by the Authority on the licensee. Moreover, there is no clue of remaining land because as per record, 21,924 sqft was handed over to the licensee out of which the licensee returned 9,036 sqft in 2009, hence remaining land in possession should be 12,888 sqft instead of 7,242 sq ft. This resulted in less recovery of Rs 14.432 million.

Audit pointed out the issue in February-March 2017. The Authority replied that issue with M/s Karachi Aero Club was pending since 1986 (after expiry of initial Agreement). In 2001, a reconciliation committee was formed by the competent authority to resolve the issue. Since the matter was not resolved, a meeting was held in 2010 between CAA and KAC under the chairmanship of Deputy Director General CAA. The matter was put up in 263rd CAA Executive Committee Meeting. All charges were levied in the light of the aforementioned decision. It must also be kept in mind that Karachi Aero Club is a non-profit organization and is working for promotion of aviation industry in Pakistan. Furthermore, as per policy Aviation Clubs are levied 50% of space rentals for covered and paved space, whereas open space is given free of cost. As far as, the matter of additional space under occupation of M/s KAC is

concerned, the matter is under review and will be conveyed when a decision is taken. The reply was not tenable because contents of the para were not addressed accordingly.

The para could not be discussed in DAC meeting.

Audit recommends early recovery from the licensee.

(Para 52)

4.13 Extraordinary delay in acquisition of land resulted in escalation of cost - Rs 14.271 million

As per Section-IV of Land Acquisition Act 1894, whenever it appears to the Collector of the District that land in any locality is needed or is likely to be needed for any public purpose or for a Company, a notification to that effect shall be published in the official Gazette, and the Collector shall cause public notice of the substance of such notification to be given at convenient places in the said locality.

Audit noted that a Board of Officers (B.O.O) was constituted on 17th September, 2008 by the Authority for acquisition of land for expansion of Terminal building of Skardu Airport. The Board of Officers submitted their report and recommended that land measuring 18 Kanal may be acquired immediately for expansion work and land measuring 10 Kanal situated towards southeast side of the approach road in between ATC tower and main runway may also be acquired for future utilization. The Revenue Authorities were approached and cost of land was determined as Rs 16.629 million. An Annual Development Plan scheme was created and amount was booked in the said scheme for acquisition of land.

Audit observed that thereafter, no efforts were made by the Authority to acquire the said land and in 2016-17, the same land was acquired at cost of Rs 30.900 million involving an excess/escalation of Rs 14.271 million. Audit is of the view that the case for acquisition of land was mismanaged by the Authority and extraordinary delay occurred which resulted in excess expenditure of Rs 14.271 million.

Audit pointed out the issue in February-March 2017. The Authority replied that on the recommendation of the Board of Officers during 2008 and approval of competent authority for acquisition of land, the case was initiated in accordance with the provisions of the Land Acquisition Act 1894. The matter remained under discussion and approvals for which protracted correspondences were made regarding determination of price of land by D.C/Collector Skardu, issuance of notifications, award, approval of Executive Committee, release of Funds by P&D and Finance Directorate HQCAA etc. Due to adoption of course of actions as highlighted above, the same can be construed as completion of formalities and cannot be termed as delay on the part of CAA rather it was the procedure which was required to be completed for acquisition of land. It is evident from the reply that priority was not accorded for payment of land at agreed rates of land in 2008.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s) for the delay.

(Para 36)

4.14 Loss due to incorrect rates - Rs 5.385 million

As per para D3.2.3 of Policy and Procedure for grant of business licenses at CAA airports, reserve price of existing concessions shall be calculated after adding 5% over and above the current year's license fee.

Audit noted that Civil Aviation Authority awarded a license for Collection of Car Parking Fee in Cargo Area at AIIAP Lahore to M/s Crystal Safety for three years from 14th February, 2011 to 13th February, 2014 at monthly license fee of Rs 329,512, Rs 370,701 and Rs 426,306 (i.e. 12.5% and 15% increase in subsequent years) during 1st, 2nd and 3rd year respectively.

Audit observed that on expiry of license period, the agreement was extended for further period of two years @ 15% and 10% increase during 4th and 5th year instead of 17.5% and 20% as per original agreement. Audit further observed that on expiry of extended period, the concession was put to tender by calculating reserve price on the basis of 5th year's license fee plus 5% i.e. Rs 566,241 per month whereas, if the extension was granted as per agreement, the reserve price should have been Rs 631,147 per month. This resulted in loss of Rs 5.385 million.

Audit pointed out the issue in February-March 2017. The Authority replied that previous policy for enhancement of license fee was not applicable on the license agreement executed with M/s Crystal Safety (Pvt) Ltd., with effect from 14th February 2014 to 13th February 2016 as previous policy was superseded by a new commercial policy (CAAO-004-CMPP-1.0) in May, 2013. Enforcing both policies simultaneously is impractical, and not in line with sound legal and administrative practices. The reply was not tenable because extension in the previous agreement was granted in pursuance of the previous policy w.e.f from 14th February, 2014.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s) for the loss.

(Para 26)

4.15 Loss to Authority due to non-implementation of clause of agreement - Rs 4.484 million

Para-3 Consideration-(vii), "Lessor reserves a right that, after fifteen (15) days , written notice to lessee, it shall be entitles to an audit of all the lessee's books and records relating to the gross sales at the McDonald's Restaurant. If such audit discloses a discrepancy between the amounts actually paid by Lessee to Lessor and the amount due to Lessor then Lessee shall, within seven (7) days of the completion of the audit and signing of a statement to that effect by the Lessor and Lessee pay to

Lessor the amount less paid for the unpaid period. The audit shall be conducted by an internationally recognized audit company or firm, acceptable to the lessee. If such audit discloses a discrepancy in excess of ten percent (10%) Lessee shall be obliged to pay all costs of the audit. Otherwise the Lessor alone shall be obliged to pay such costs. Lessor shall not be entitled to have Lessee's books or record audited more than once in two calendar years. In any case, no audit shall be permitted for period beyond two years prior to the date the audit in terms of this clause commences. Any information obtained by the Lessor pursuant to audit rights under this deed of lease shall be held strictly confidential. Breach of this covenant shall render the Lessor's entitlement to cause an audit in terms hereof wholly and for all future times vitiated and this clause (vi) shall in such case have no effect whatsoever.

Audit noted during special audit of Commercial Activities of Civil Aviation Authority that a lease deed was executed between Civil Aviation Authority and Siza Foods (Pvt) Ltd on 10th July, 2000, for a period of seventeen (17) years from 1st January, 2001 to 31st December, 2017 for construction of building & park for operating a McDonald's Restaurant.

Audit observed that in pursuance of the agreed clause, audit was carried out by M/s RSM Hyder Liaquat Nauman Chartered Accountants for the period from January 2013 to December, 2014. It was pointed out by the Auditors that rent paid to CAA by the Siza Food (Pvt) Ltd was not in accordance with the terms of the agreement and there was short payment of Rs 4,240,355 (Rs 1,979,218-2013 & Rs 2,261,137-2014). Audit is of the view that audit of remaining period may also be carried out to ascertain actual losses of the Authority. Audit further observed that the discrepancy was more than 10%, therefore, Audit fee amounting to Rs 243,800 was also recoverable from the lessee. Audit holds that despite the auditor's report the recovery has not been effected which resulted in a loss of Rs 4.484 million.

Audit pointed out the issue in February-March 2017. The Authority replied that M/s Siza Foods has deposited an amount of Rs 243,800 on account of Audit Fee payable to External Auditors;

however, for rest of the recovery, Airport Manager, Jinnah International Airport is pursuing the matter with M/s Siza Foods. The reply was not tenable because no recovery on account of profit share of remaining period was intimated till finalization of the report.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s) for the loss.

(Para 54)

4.16 Non-recovery on account of space charges - Rs 4.033 million

As per introduction to CAAO 11-4, the Civil Aviation Authority has a variety of lands, open spaces, shops, and counters etc, which are potential source of regular income through their commercial exploitation by granting licenses for their use from time to time.

Space measuring 27,200 square feet at AIIAP Lahore has been utilized by M/s Unicorn Prestige Ltd with effect from 17th June, 2014.

Audit noted that the airport management raised bill of Rs 4,723,479 to the party for said occupation for the period of 17th June 2014 to 31st October, 2016.

Audit further noted that the party has paid Rs 1.60 million as first installment against raised bill of Rs 4.723 million.

Audit observed that the aforesaid space measuring 27,200 square feet at AIIAP Lahore has been utilized without allotment by M/s Unicorn Prestige Ltd since 17th June, 2014.

Audit further observed total amount of Rs 4.033 million is still outstanding against the party upto 31st March, 2017 for the space measuring 27,200 square feet at Allama Iqbal International Airport Lahore. This leads to lack of management and supervision of land lease

cases by Estate Branch CAA AIIAP Lahore and non-recovery of Rs 4.033 million.

Audit pointed out the issue in February-March 2017. The Authority replied that M/s Unicorn stored building material on the rear side of under constructed hotel building. A Board of Officer was constituted by APM who finalized to charge Rs 4,723,479 for stacking of material. M/s Unicorn has deposited an amount of Rs 1,600,000 as first installment. However, the additional space is no more in use of Unicorn. Meanwhile, M/s Unicorn vide letter dated 11th August, 2016 requested CAA to lease out above area on 30 years lease basis and promised to submit remaining installments on finalization of additional land lease case. Upon receipt of balance amount i.e. Rs 3,123,479 towards stacking of material, case will be processed for allotment of additional space on lease basis. The reply was not tenable because recovery of balance amount was not intimated till the finalization of the report.

The para could not be discussed in DAC meeting.

Audit recommends early recovery from the lessee.

(Para 74)

4.17 Delay in realization of Authority's revenues resulted in recurring loss - Rs 3.257 million

Para 6 (b) of lease deed executed on November 2003 between Civil Aviation Authority and Air Commodore (Rtd) Abdul Waheed for establishment of CNG Station at Kuri Road/Rawal Road Rawalpindi at Islamabad International Airport denotes that "from time to time and at all times during the said term to pay and discharge all Government rates, rents, taxes, charges and assessments of every description which are now or may at any time during the said term be imposed, charged or assessed by the concerned authority or department upon the premises hereby demised or the building to be erected thereupon or for the purpose/business for which this lease has been granted."

Audit noted during special audit of commercial activities of Civil Aviation Authority that a lease deed was executed in November 2003 between Civil Aviation Authority and Air Commodore (Rtd) Abdul Waheed for establishment of CNG Station at land measuring 20,000 sq feet at premium of Rs 15,318,503 at Kuri Road/Rawal Road Rawalpindi at Islamabad International Airport for a period of 30 years w.e.f 13th April, 2004.

Audit observed that the lessee did not pay CAA dues amounting to Rs 3,256,741 with the plea that commercialization charges paid to the Tehsil Municipal Administration. The plea of the lessee was not covered under the ibid condition of the lease deed. Although DGCAA, Arbitrator had decided on 23rd August 2010 that the CAA may consider to stagger the payment in easy installments, if agreed. Audit holds that despite the decision of arbitrator no efforts have been made by the management to recover the dues. Delay in realization of the authority's revenues resulted in recurring loss of Rs 3.257 million in addition, bank interest at least @ 8% per annum also not been earned by the Authority.

Audit pointed out the issue in February-March 2017. The Authority replied that recovery could not be effected due to court case. At present matter is pending with the Lahore High Court Rawalpindi Bench with date in Office. As soon as, case is decided by the court, recovery action will be started immediately. The Authority admitted audit contention; court decision as and when finalized will be intimated to Audit.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s) for the loss.

(Para 13)

4.18 Violation of lease deed due to subletting the premises to other agencies

As per standard condition 6-h of the lease deed the lessee does hereby covenant with the lessor that not to assign transfer or sub lease the lease hold rights of the premises hereby demised or any part thereof without the prior written permission of DGCAA.

Audit noted that a piece of land measuring 4,202.22 square yards was allotted to M/s Track Aviation Services @ Rs 5,000 per square yard for establishment of Air Logistics Cell near PIA Flight Kitchen for thirty (30) years with the above noted conditions.

Audit observed that the lessee illegally sublet the spaces to five other companies i.e. M/s DHL, WWG Consolidators, Expert Cargo, Aircraft Aviation Services and Gerrys Dnata without informing to the Civil Aviation Authority. Audit further observed that the lessee charging rent from the companies same as per CAA's pattern of license agreements. No action has been taken by the Authority against the lessee. Audit is of the view that as the lessee illegally sublet the spaces hence stern action is required to be taken against them and the rent they received from the five agencies may be deposited in CAA's account.

Audit pointed out the issue in February-March 2017. The Authority replied that the lessee was leased out land for establishment of Air Logistics Centre at JIAP Karachi. Lease deed was registered on 11th October, 2005. The purpose of lease was to establish Air Logistics Centre by the lessee to accommodate airlines offices, cargo offices, warehouses for cargo agents etc., in cargo area of JIAP Karachi. The lessee licensed offices/warehouse to some cargo agents for a period of 1 to 5 years for which the lessee was required to get prior permission from DGCAA. Due to non-compliance, Joint Director Estates JIAP served notice to the lessee who in response submitted a letter dated 25th December, 2016 forwarded therewith copies of licenses and informed vide Para-8 of the said letter that prior approval of DGCAA will be sought for all future licenses. The reply

was not tenable because prior approval of DGCAA was not obtained prior to the award of lease/license.

The para could not be discussed in DAC meeting.

Audit recommends that the matter may be investigated besides regularization of the license/lease.

(Para 58)

4.19 Non-recovery of rent and space charges from licensees - Rs 4,684.678 million

Para D.15 of Civil Aviation Authority Order CAAO-004-CMPP-1.0 (dated 01st November, 2012) regarding Policy and Procedure for grant of business licenses at CAA Airports provides that it is the personal duty of the concerned Airport Managers to ensure that all charges on account of license fee etc are realized from the licensees as soon as the charges are due. Clause 3(b) of the standard license agreement provides 'if the license fee or any part thereof shall be in arrears for a month or more after the same has become due whether demanded or not, the Airport Manager/ licensor may impose financial charges @ 10% above the bank rates or impose a fine @ Rs 1,000 for each day of such delay'.

Audit noted that an amount of Rs 4,684.678 million was outstanding against various licensees of CAA working at airports as per the following details:

(Rs in million)

S No	Name of Licensee	Amount
1	JIAP Karachi	3,838.697
2	AIIAP Lahore	448.001
3	BBIAP Islamabad	242.070
4	BKIAP Peshawar	130.421
5	MIAP Multan	25.489
	Total	4,684.678

Audit observed that the dues were accumulated due to negligence of Airport Managers in performing obligatory responsibilities to implement agreed clauses of agreement and realization of Authority's revenue.

Audit maintains that accumulation of outstanding dues reflects the inadequate oversight mechanism for ensuring effective exercise of relevant internal controls.

Audit pointed out the non-recovery during February-March 2017. The Authority replied that vigorous and continuous efforts were and is being made for recovery of outstanding dues. The reply was not tenable because status for recovery against the outstanding dues was not intimated.

The para could not be discussed in DAC meeting.

Audit recommends for early recovery from the licensees.

(Para 3&38)

4.20 Loss to Authority due to encroachment on 309.62 acres land

Para B1 of Land Lease Policy provides that the scope of land lease policy was to encourage CAA to exploit its land resources to generate revenue. The policy elaborates the guidelines for leasing CAA land assets suitable for commercialization.

Audit noted that Civil Aviation Authority has variety of land under its control comprising an area of 35,085.82 acres all over Pakistan. Audit further noted that Directorate of Commercial and Estates HQCAA monitors the land matters of the Authority and awards the land on lease basis for commercial purposes.

Audit observed that out of total area of 35,085.82 acres an area of 309.62 acres land has been occupied by the encroachers and management of CAA failed to evacuate the land from the encroachers. Audit further

observed that besides encroachment of valuable land CAA also suffering huge revenue loss due to non-utilization of encroached land for commercial purpose. The detail of encroached land is as under:

S#	Location	Date of encroachment	Encroached by	Area (Acres)
01	JIAP Karachi	1984	Sindh Police	120
02	BBIAP Islamabad	Various dates	Various parties	9.27
03	Lahore	N/A	PHA	178
04	BKIAP Peshawar	Various dates	ASF	2.35
Total				309.62

Audit holds that encroachment of land was due to weak internal control and monitoring, resulted in a loss of millions of rupees.

Audit pointed out the issue in February-March 2017. The Authority replied that the issue of encroachment of CAA land is in active consideration of HQCAA. However, the observation raised by Government Audit for the following locations are replied as under:

JIAP Karachi (Sindh Police): The Govt. of Sindh allotted 120 acres of land in Survey No.171 Deh Safooran JIAP Karachi. CAA filed a case against Sindh Government in Sindh High Court which is subjudice till to date.

Lahore (PHA): The Punjab Govt. occupied CAA land for establishment of green belt in front of AIIAP Lahore. In this regard, on the request of Punjab Govt. the matter for MOU between CAA and Punjab Government have been drafted and under consideration of Punjab Government and Aviation Division.

BKIAP Peshawar (ASF): It is brought in the notice of Govt. Audit that ASF is not an encroacher of CAA land. The services of ASF are mandatory for safeguarding airports.

BBIAP Islamabad (Various Parties): Land measuring 9.27 acres land is split into small pockets of land along airport link road. CAA tried to recover the pieces of land from different parties. Parties file court cases which are pending before courts of law.

Para-wise further audit comments are as under:

- Court decision will follow.
- MOU when signed may be produced to proceed further in the matter
- Terms & condition under which the land was under occupation of ASF may be provided to proceed further in the matter.
- Efforts made to recover the land may share with audit.

The Authority should strengthen monitoring of the land matters and take measures to save CAA's land for further encroachment.

The para could not be discussed in DAC meeting.

Audit recommends for early recovery of encroached land and efforts be made for further safeguarding the Authority's assets.

(Para 39&87)

4.21 Non-implementation of the agreed clauses of the agreement and Authority's prescribed policy resulted in recurring loss - Rs 463.317 million

As per Policy & Procedure for grant of business license at CAA airports under heading Lands & Open Spaces - Para D3.14.3, there are a number of business concessions which require business licenses to operate their business / concession and provide services on open land / spaces by establishing their own infrastructure such concessions include banks, cargo sheds/services, courier services, aviation related concessions like

Airlines and Ground Handling services. Open lands / spaces allotted to above entities through open competition (open tenders) are to be charged over & above CAA prescribed space charges. As per para D3.3 of ibid a license shall not be extended after the expiry of initial 05 years and it shall be placed for disposal through open tender at least ninety (90) days prior to the expiry of the license agreement.

Clause 9 (a) of License Agreement executed with M/s PIAC for a period of two years w.e.f 1st January, 2008 to 31st December, 2009 for grant of license/permission to establish office accommodation, space and check in counter at AIIAP, Lahore denotes that “on expiry of license period or termination of the license agreement earlier, relation between the parties shall be determined/cease to exist and the licensee shall be deemed to be in un-authorized and illegal occupation of the premises from such time.

Audit noted during special audit of Commercial Activities of Civil Aviation Authority that an agreement was executed with M/s Pakistan International Airline Corporation (PIAC) for a period of two years w.e.f 1st January, 2008 to 31st December, 2009 for grant of license/permission to establish office accommodation, space and check in counter at AIIAP, Lahore.

Audit observed that despite a lapse of about more than six years neither the agreement was terminated/extended nor space rent revised after expiry of the agreed period. Audit holds that non implementation of the agreed clauses of the agreement and Authority’s prescribed policy regarding 10% cumulative annual enhancement in monthly rent/ space charges resulted in recurring loss of Rs 463,317,299.38. (Space rents of December, 2009 x 10% annual enhancement w.e.f 1st January, 2010 to 30th June, 2016).

Audit pointed out the issue in February-March 2017. The Authority replied that CAA prescribed space charges for Category-A airports are being charged to M/s PIAC as per policy. Efforts are being made to execute license agreement with the national flag carrier. The reply was not tenable because status of recovery on enhanced rates was not

provided. Further, delay in execution of agreement despite the lapse of more than month is alarming.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s) for non-execution of agreements and loss due to non-recovery.

(Para 02)

4.22 Unauthentic data of Cargo due to non-availability of weighing scale to check the cargo weight - Rs 445.660 million

As per Para C.1.1 and C.1.4 of CAAO-001-ASCG-1.0, Airport Managers at locations where cargo operations are being handled are responsible to ensure that Cargo Section is carrying out the following functions:

C.1.1 Collection, Compilation, verification and reconciliation of data pertaining to Cargo Handling Facility Charges - enplaned cargo (only export scheduled and non-scheduled flights) from all airlines, GHAs working at Airports.

Audit noted that Cargo Complex at Jinnah International Airport Civil Aviation Authority Karachi assigned the functions of collection, compilation, verification and reconciliation of data pertaining to Cargo Handling Facility Charges from all the airlines/GHAs throughout the year and required to submit the data to Billing Branch HQCAA Karachi for billing purpose.

Audit observed that there was no computerized weighing scale to check the weights of the consignments and the Authority is relying on the data/information provided by the other agencies. Audit is of the view that it is the main requirement of the Cargo complex to check the weight independently to verify/cross check the Cargo data provided by the other agencies/airlines. Due to non-availability of such equipment, the cargo data involving Rs 445.660 million (from 2012-13 to 2015-16) cannot be

authenticated. Audit further observed that the weighing scales were also not available on the other cargo complexes of Lahore and Islamabad.

Audit pointed out the issue in February and March, 2017. The Authority replied that currently Airlines/GHAs are using their own weighing scales to check the weight of consignments and their weighing scales are inspected by cargo inspector on monthly basis as per relevant CAAO. Calibration certificates are also provided by GHAs and Airlines. However, the observation of audit is noted and case is under process for installation of CAA's own weighing scales. The matter may be taken up with higher authority to review policy and provision of weighing scales at all the cargo complexes may be made compulsory to check and authenticate weight on international departed cargo.

The para could not be discussed in DAC meeting.

Audit recommends for early installation of CAA's independent computerized weighing scale to check/reconcile the weight provided by the other agencies/airlines.

(Para 62, 82, 96)

4.23 Short security/non-availability of security deposits against the outstanding dues - Rs 138.925 million

Para D.15 of Civil Aviation Authority Order CAAO-004-CMPP-1.0 (dated 01-11-2012) regarding Policy and Procedure for grant of business licenses at CAA Airports provides that it is the personal duty of the concerned Airport Managers to ensure that all charges on account of license fee etc are realized from the licensees as soon as the charges are due.

Audit noted that Directorate of Commercial and Estates HQCAA monitors and controls all the land matters and commercial concessions at the airports Pakistan.

Audit observed through a comparison of outstanding dues and the available security deposits of the licensees/lessors found that there were 17 such parties against which an amount of Rs 75.155 million was outstanding but no security deposits of these defaulters have been available with the Authority. Audit further observed that there were 28 such parties against which an amount of Rs 81.825 million was outstanding against which only security deposit of Rs 18.054 million was available with the Authority having a deficit of Rs 63.770 million. This resulted in short/non-availability of security deposits amounting to Rs 138.925 million.

Audit pointed out the issue in February-March 2017. In reply the Authority submitted a summary of dues on account of Security Deposit against the various licensee/lessee. After verification of the record the status of the deficit security deposit was as; JIAP Rs 42.417 million, AIIAP Rs 43.189 million, BBIAP Rs 1.804 million, JIAP Rs 0.291 million, BKIAP Rs 5.871 million, Faisalabad Rs 0.074 million and Multan Rs 1.735 million i.e. total of Rs 95.381 million was still in deficit. Audit stresses for replenishment of deficit security deposit.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s).

(Para 43)

4.24 Loss due to non-implementation of agreement's clause regarding forfeiture of security deposit - Rs 77.826 million

Clause 34- (Violation of License Terms) of License Agreement denotes that:

- a. The licensee shall ensure strict and due compliance of each and all clauses of this license agreement by which the licensee has been granted permission to operate /remain at the airport, which is a restricted area.

- b. In the event of violation of any terms and condition of this license the licenser may, by giving a written notice specifying the violation (s), requires the licensee to remove the violation (s) within the specified therein. In case of failure of the Licensee to remove the violation to the satisfaction of the Airport Manager the latter may take either of the following action:
- i. Impose fine upto rupees two thousands only (Rs 2,000) on the licensee for each violation of the terms of the license. The fine so imposed shall be immediately paid by the licensee or else realized from the security deposit. The license in the latter event shall replenish the security deposit by depositing like amount within three days of the imposition of fine failing which he shall be deemed to be a default.
AND/OR
 - ii. Forfeit the entire security deposit and/or cancel the license without incurring any liability or compensation whatsoever.

Audit noted during special audit of Commercial Activities of Civil Aviation Authority that a license agreement was executed with M/s Air Gate for collection of cargo throughput charges at Jinnah International Airport, Karachi for a period of five years w.e.f 28th July, 2009 to 27th July, 2013 at license fee of Rs 25,942,050 per month with cumulative annual enhancement @15% during the subsequent years. Audit further noted that extension in contract period was granted for a period of one month w.e.f 28th July, 2013 to 28th August, 2013 on interim basis with 10% enhancement in the existing license fee which was Rs 39,454,615.

Audit observed that the licensee had not paid 10% enhancement in license fee amounting to Rs 3,945,462 for the interim period despite the repeated reminders by the management of JIAP and a lapse of about three years. Audit holds that the licensee has committed violation of the contractual obligations and the ibid clause was required to be implemented

but no action was initiated, this resulted in a loss of Rs 3.945 million as well as non-forfeiture of security deposit of Rs 77.826 million.

Audit pointed out the issue in February-March 2017. The Authority replied that temporary extension in the license for the concession of Cargo Throughput Charges at JIAP was granted to M/s Air gate at 10% enhancement in the existing rates but the concessionaire did not concede to the enhancement and did not execute amended license. Nevertheless CAA has vigorously pursued the matter and has written numerous letters for the recovery. A final notice has been served to M/s Air Gate International for the payment of Rs 3.945 million at the earliest; otherwise appropriate action under land revenue act will be initiated accordingly. The reply was not satisfactory. Recovery action should be expedited and got verified from Audit.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s).

(Para 46)

4.25 Excess payment due to change in rates of land without any justification - Rs 44.811 million

As per Rule 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 the Prime Minister of Pakistan directed for establishment of an Airport in Mansehra in the year 2014 through Public Sector Development Program. In this connection Civil Aviation Authority was selected as executing agency for establishment of airport. The Authority selected a piece of land measuring 6,301 Kanal (i.e. 787.625 acre) for acquisition in eight (08) Mauzas i.e. Lassan Nawab, Dhairy, Palsala, Kund, Sawan Maira, Bandi Karagwal, Jisgran Payeen and Jisgran

Bala. Out of total land of 6301 Kanals in 08 mauzas, the Land Acquisition Collector provided cost of 3,170.10 Kanal of five mauzas (i.e. Lissan Nawab, Dhairy, Palsala, Kund, Sawan Maira) to the Authority on 8th June 2016 as Rs 122.573 million which was paid by the Authority on 1st August 2016 through cheque No. 4541625. Audit further noted that on 27th October 2016, the Land Acquisition Collector provided full cost of 6,301 Kanal in eight Mauzas as Rs 450.390 million for which the Authority made payment of Rs 327.817 million on 7th November 2016 by deducting the earlier payment of Rs 122.573 million.

Audit observed that while providing rates for complete land, the rates of land in three Mauzas i.e. Dhairy, Palsala and Kund (for which the Authority already paid on 1st August 2016) were enhanced without any clarification/justification and the Authority paid the enhanced amount to the LAC without seeking any justification. This resulted in excess expenditure of Rs 44.811 million.

Audit pointed out the issue in February-March 2017. The Authority replied that average one year cost is considered as base only but Collector has the power to decide the cost keeping in view the ground visit/realities. The Collector has decided to reduce the cost of land of one mouza and to increase the cost of land of other mouzas. The average one year cost of land in Mouza Dhairy, Palsala & Khund as worked out by BOR duly supported with documentary evidences may be provided to proceed further in the matter.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s).

(Para 32)

4.26 Recurring loss to Authority due to non-execution of agreements - Rs 42.931 million

According to Clause 3(b) of license agreements executed with M/s SAP, if the license fee or any part thereof shall be in arrears for one month or more after the same has become due, whether demanded or not, the Airport Manager/Licensor may terminate the License Agreement and the Licensor or his authorized representatives may upon such termination enter into or upon the premises and take over the same without any right or remedy to the Licensee or any obligation to the Licensor or the airport manager/licensor may impose financial charges @ 10 % of the outstanding amount or a fine of Rs 1,000 for each day of such default. This agreement shall be deemed to have been terminated and cancelled without any notice if the license fee or any part thereof is not paid by the licensee and is accumulated or defaulted for two (2) months for any reason whatsoever, and possession of premises shall be recovered by the licensor without any notice.

Audit noted during special audit of commercial activities of Civil Aviation Authority that various spaces (open & covered) at Islamabad airport were allotted to M/s Shaheen Airport Services (SAPS) without execution of agreement/ extension in agreement. The Director Commercial & Marketing, Civil Aviation Authority has accorded approval in favour of M/s SAPS for execution of addendum /license agreement with direction to pay arrears and monthly dues as per agreement as communicated by APM Islamabad to M/s SAP vide letter dated 5th May, 2015.

Audit observed that despite the lapse of about more than one year, the licensee neither executed license agreement nor cleared Authority's dues against the said premises. Furthermore, as per record, an amount of Rs 42,931,779 is outstanding against the licensee on account of rent charges of the said premises upto October, 2016. This state of affairs clearly shows that M/s SAP is reluctant to execute agreement and pay Authority's dues. Audit holds that non-compliance of the policy and

agreed clauses of the agreements resulted in recurring loss of Rs 42.931 million.

Audit maintains that the loss was due to inadequate mechanism of enforcing policy & procedure, weak internal and financial controls.

Audit pointed out the issue in February-March 2017. The Authority replied that a case has been initiated with Aviation Division to approach Ministry of Defence for resolution of the issue. Audit stressed for early finalization of the matter.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s) for the loss.

(Para 20)

4.27 Loss of revenue due to non-finalization of lease with TCS - Rs 27.669 million

As per introduction to CAAO 11-4, the Civil Aviation Authority has a variety of lands, open spaces, shops, and counters etc, which are potential source of regular income through their commercial exploitation by granting licenses for their use from time to time.

Audit noted that M/s TCS has been awarded lease agreements for the spaces measuring 830 square yards and 159.28 square yards for establishment of their office and other operations at Karachi.

Audit observed that M/s TCS has requested to lease out land measuring 1878 square yards on road leading to Hajj Terminal JIAP and land measuring 6,668.25 square yards at Hajj terminal-II adjacent to flight kitchen PIA JIAP Karachi since long time but the Estate section has not finalized the lease process. Audit further observed that a price evaluation committee was formed who submitted their assessment on 20th March, 2013 with the assessed rate of Rs 8000-9000 per square yard and Rs 6000-

7000 per square yard for the above piece of land respectively but after that no progress was available in the file. This resulted in loss of revenue on account of land Rs 27.669 million.

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

Audit pointed out the issue in February-March 2017. The Authority replied that HR Directorate has constituted a Committee after approval of the competent authority. The committee performed the task in accordance with TORs and submitted report to HR Directorate for further necessary action. The reply was not tenable because the price evaluation committee has already submitted its report in 2013 so why the case was not finalized.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s) for the loss.

(Para 48)

4.28 Non-replenishment of security deposit - Rs 27.283 million

According to Clause- 4 of license agreement executed with M/s Pakistan International Airline Corporation (PIAC), the licensee shall, for the due performance of his obligations under this license, deposit with licensor/Airport Manager, Cash Security in the sum of amount equal to three months license fee.

Audit noted during special audit of Commercial Activities of Civil Aviation Authority that an agreement was executed with M/s PIAC for a period of two years w.e.f 1st January, 2008 to 31st December, 2009 for grant of license/permission to establish office accommodation, space and check in counter at AIIAP, Lahore.

Audit observed that security deposit as per clause-4 of the agreement has not replenished besides clear clause of the agreement and

lapse of about more than (6) six years from the expiry of the license agreement. Audit holds that negligence from the part of management in implementation of the agreements in its true spirit resulted in non-recovery of Rs 27. 283 million

Audit maintains that the non-implementation of agreed clauses of agreement was due to inadequate mechanism of enforcing policy, weak internal and financial controls.

Audit pointed out the issue in February-March 2017. The Authority admitted the Audit observation and promised to pursue the case with the national flag carrier.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s) besides replenishment of security.

(Para 08)

4.29 Compromise on transparency in award of the license - Rs 22.711 million

According to tender notice Civil Aviation Authority invited tender on a two envelop basis, i.e. Technical and Financial offer respectively for grant of license for installation of twenty eight (28) pillars mount digital advertising screen network in international and domestic terminals at AIIAP, Lahore, the tendered must secured 80% weightage in their technical offer to become technically qualified.

Audit noted special audit of Commercial Activity of Civil Aviation Authority that consequent upon the expiry of six month of the said concession, it was proposed for further disposal through publications. The tender was invited on 12th November, 2016 through publication with the condition that the tendered must secured 80% weightage in their technical offer to become technically qualified at the reserved price of 213,500 per

month for a period of two years with 10% annual cumulative enhancement during each successive year.

Audit observed the following irregularities:

- Technical offer proforma, Para 4-Advertising network denotes that the digital advertising network shall comprise of HD LED screens each measuring 55 inches diagonally, 29 inches in width, 49 inches in length approximately, on 28 designated spots in international and domestic terminals (Arrival and departure lounges) at AIIAP, Lahore. The description was specific for the existing licensee and not in general.
- Only two bidders M/s Red Tape and M/s Wave Tech participated out of them M/s Wave Tech was technically disqualified. A review of the technical evaluation disclosed that M/s Wave Tech obtain 65 marks out of 100 marks and secured 65% weight-age, whereas, M/s Red Tape secured 76 marks out of 100 marks and secured 75% weight age but the committee given 95% weight age by calculation 76 marks out of 80 marks. Further, the M/s Red Tape did not provide Bank Certificate and Bank Statement of the last three years, in the absence thereof how the average balance was assessed as more than 13,00,000 and given 6 marks. Actually the weight-age secured by M/s Red Tape was 70% ($70/100 \times 100$) and they also not technically qualified. Besides this the concession was awarded to M/s Red Tape.

Audit holds that the state of affairs shows manipulation in award of license to the existing licensee which was against the policy of the Authority as well as an attempt to compromise transparency in award of the license involving Rs 22.711 million @ 310,000 per month.

Audit pointed out the issue in February-March 2017. The Authority replied that:

- i. Under Rule 10 of PPRA Rules, 2004, “Specifications shall be generic and not include references to brand names, model numbers, catalogue numbers or similar classifications.” In the instant case, no brand names, model numbers or any such specifications were required in the tender.
- ii. Furthermore, the tendered advertising screen network was to be installed on pillars in various lounges of the airport. The pillars could only suitably accommodate LEDs / Screens of the size specified in tender documents. A photograph of a pillar with advertising screen installed thereon is enclosed for ready reference. Moreover, the screen size was approximate as noted in Clause 4 of the Technical Offer. Even then, the size of the screens does not constitute a specification which is prohibitive for open competition. In this era, any size and type of screen can be easily procured. For reference, digital advertising screens installed on various roads, and in shopping malls across Pakistan can be referred. Any screen size can be manufactured depending on the space where on the screen is to be installed.

As to the technical evaluation of the bidders, it is clarified that:

- i. Technical evaluation proforma was issued to all prospective bidders with tender documents and the evaluation was conducted on the same proforma. The proforma detailed marks distribution among various documents required under Clause 15 of Technical Offer proforma for maximum marks of 100, out of which a percentage score of 80 was required for technical qualification.
- ii. Now, all the documentary requirements are not universally applicable on all the bidders. For example, documentary requirements of Clauses 15(c) and 15(d) respectively require Memorandum and Articles of Association, and Audited Financial Statements for the last (3) years. However, the Technical Offer and Technical Evaluation Proforma clearly note that these requirements are applicable to “Limited Companies only”. These

requirements which carried 10 marks were not applicable on M/s Red Tape, it being a sole proprietor. Similarly, Clause 15(a) carrying 10 marks required Registration Documents from companies and firms only, and were not applicable to sole proprietors. Therefore, 20 marks were reduced from the total maximum marks in case of M/s Red Tape due to non-applicability of Clauses 15(a), 15(c), and 15(d). M/S Red Tape was thus evaluated out of 80 marks, instead of 100 marks.

- iii. On the other hand, the other participant viz. M/s Wave Tech was a Limited Company and thus requirements of Clauses 15(a), 15(c), and 15(d) were applicable on it warranting evaluation of the participant out 100 of marks.
- iv. M/s Red Tape had submitted bank certificate and bank statement of the last three (3) years based on which average balance was assessed.

The reply was not tenable on the following grounds:-

- The descriptions of the concession provided in tender documents were specific not generic which was a violation of PPRA-2004.
- Equal opportunities were not given to the participants by distributing weightage.
- The qualified participant secured 6 marks its means mandatory requirement was not followed.
- Why did CAA not award this concession for 05 years when its worth was too high? The contractor established business at the cost of CAA with reasonable grace period with poor turnover.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s) for the loss.

(Para 05)

4.30 Non-transfer of land in the name of Authority - Rs 22.368 million

CAA Land Lease Policy-2001 described that agreement should be executed within specified period after handing over/taking over possession of land.

Rule 11 of General Financial Rules (Vol-I) states that each head of a department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant financial rules and regulations both by his own office and by subordinates disbursing officers.

Audit noted during special audit of commercial activities of Civil Aviation Authority that Pakistan Air Force constructed pans at Rahim Yar Khan Airport over the land of Civil Aviation Authority as decided in meeting between PAF and Civil Aviation Authority on 20th October, 2006 with the following three options :-

1. 2.9 Acres land at Rahim Yar Khan Airport be given to CAA
2. 14 Acres residential land at Faisalabad Airport be transferred to CAA
3. Equivalent land at Skardu or any other Airport may be transferred in the name of CAA.

Audit observed that 14 Acres 7 Kanal 6 Marlas land in under possession of PAF which was given for construction of PANs. PAF agreed to provide land in lieu of the said land at Rahim Yar Khan and at other airport of Pakistan. It was further observed that 23 Kanal 04 Marlas PAF land in under possession of CAA inside fence at Rahim Yar Khan Airport. 16 Kanal adjacent to CAA land outside boundary wall along old runway is property of PAF which can be transferred to CAA in lieu of the said CAA land. Audit holds that transfer of land measuring 39 Kanal 04 Marlas and remaining land out of total land of 14 Acres 7 Marlas has not been transferred in the name of CAA despite a lapse of about 11 years. This

resulted in loss to Authority's Assets valuing Rs 22.368 million {14.9125 acre x 15, 00,000 (approx.)}.

Audit pointed out the issue in February-March 2017. The Authority replied that the case relates to exchange of land between PAF and CAA at various airports / locations. For this purpose complete data is under compilation process and as soon as the same is completed, a meeting between high ups of both the organizations will be convened shortly. No update was shared with Audit till finalization of the Report.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the persons responsible.

(Para 12)

4.31 Non-possession/non-transfer of purchased land - Rs 14.676 million

Senior Joint Director (Estate) CAA, AIIAP Lahore is responsible to discharge various important and sensitive nature duties/job pertaining to land matters at different Airports of Punjab. He is primary responsible for processing of cases of land acquisition.

Audit noted that CAA paid a sum of Rs 14.676 million for the land @ Rs 50,000 per kanal during the year 1987 for the construction of terminal building at Lodhi Camp near Hajj Terminal Lahore.

Audit observed that despite of payment of Rs 14.676 million the possession of land was not taken by CAAP and the case of transfer of said land in the name of CAAP was still pending. This shows weak internal control and lack of interest for processing of cases of land acquisition.

Audit pointed out the issue in February-March 2017. The Authority replied that initially CAA purchased Pak Army Land 36.69 Acres @ Rs 400,000 per Acre (total amount Rs 14.676 million) for the establishment of Terminal Building at Lodhi Camp vide letter

No.F.3(30)/83-P&D-II, dated 12th February, 1986. Later on, the said land was included in NTCL package and possession of the land was taken as under:

- a) 33 Acres in NTCL package
- b) 1.96 Acres at Car Park Hajj Terminal
- c) 1.73 Acres for storm water channel

The title of the said land could not be transferred in the name of CAA due to the decision made in a Board Proceeding regarding resolution of land dispute between CAA and Pak Army on 13th February, 2006 communicated vide Station Headquarter letter No.321/38/Gen/CAA/Q-I, dated 30th August, 2006 in which it was decided that the title of balance land of Pak Army (including the above mentioned land) may be transferred to CAA on finalization of Court Cases related to Land of Walton Aerodrome / ADH. Now on 17th April, 2017, Lahore High Court has dismissed the cases that relates with the land issues of Walton Aerodrome.

It is evident from the reply that mutation of land was not made in the name of Pakistan Civil Aviation Authority.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s).

(Para 77)

4.32 Recurring loss due to illegal possession of Authority's Land - Rs 9.959 million

Para 5 of Policy and procedure regarding grant of business (concessions) at Airports (CAAO 11-4), dated 15th January, 1990 denotes that all commercial licenses shall be disposed of through inviting tenders, after wide publicity in the newspapers.

Audit noted during special audit of Commercial Activity of Civil Aviation Authority that land at Islamabad measuring 46,173 sqft (8 kanal & 10.50 marla) is under possession of M/s Rawalpindi Flying Club since 1979.

Audit observed that the land was illegally occupied by the flying club without any allotment, signing of agreement and without paying license fee & utility charges. Further, the club allowed installation of advertisement billboards at the premises and receiving license fee without any permission of the Civil Aviation Authority. It is further observed that an amount of Rs 9,959,406 on account license fee, utility charges and license fee on account of billboard received by RFC upto 13th February, 2014 is receivable from the RFC but no concrete efforts have been made by the Authority to recover premises along with its dues. Audit holds that non serious attitude and negligence of the officers responsible resulted in recurring loss to the Authority.

Audit pointed out the issue in February-March 2017. The Authority replied that CAA cannot take any action for recovery of premises from M/s Rawalpindi Flying Club till the court decision comes in favour of CAA.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s).

(Para 01)

4.33 Loss due to inclusion of special conditions regarding electricity charges - Rs 8.678 million

Clause 14 of CAAO 11-4 regarding Policy and Procedure for grant of business (concessions) at Airport denotes that “every licensee shall pay electricity, water and gas charges for the space occupied by him”. Further, Clause-6 of the agreement provides that “the licensee shall

pay to the licensor/APM charges for the supply of electric, gas and water consumed in the premises by 10th of next month”.

Audit noted that Civil Aviation Authority (APM Lahore) awarded a license for “Development of Branding / Advertisement through construction / fabrication / installation of structure of shelter on passengers / visitors main walkway area in front of main terminal building at AIIAP Lahore on BOT basis” to M/s Gizelle Communication (Pvt) Ltd for five years at monthly license fee of Rs 475,786 with the cumulative enhancement in the license fee @ 12.5%, 15%, 17.5% and 20% during 2nd, 3rd, 4th and 5th year.

Audit observed that an additional condition was included in the agreement through special condition (n) stating that “the electricity will be provided to the shelter by the Licensor itself and all electricity consumed will be borne by the Licensor”. Audit is of the view that it is clearly stated in the policy that every licensee is bound to pay utility charges, therefore, inclusion of such contradictory clause resulted in loss to the Authority on account of electricity charges of Rs 8.678 million.

Audit pointed out the issue in February-March 2017. The Authority replied that the license agreement for development of branding/ advertisement through construction/fabrication/installation of structure of shelter on passengers/visitors main walkway area in front of main terminal building at AIIAP Lahore on BOT basis was executed with M/s Gizelle Communication in accordance with tender terms & conditions, and the stated condition of provision of electricity by the licensor, was pre-decided as per tender terms & conditions therefore the same was incorporated in the license agreement. However, even in the presence of stated condition in license agreement and tender terms & conditions, the competent authority decided to charge for the electricity being provided to Main Shed and ASF Sheds at all concerned CAA Airports, including AIIAP Lahore, therefore w.e.f November, 2016. M/s Gizelle Communication has also been charged for electricity at actual consumption. The reply was not tenable because inclusion of special condition (n) in the contract agreement was in contradictory of the prevailing policy of the Authority.

The recovery of electric charges w.e.f. November 2016 instead of the date of commencement of agreement was not justified.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s) besides recovery of electricity charges.

(Para 23)

4.34 Non-preparation of Master Plan for standardization of commercial activities

According to decision taken by the Executive Committee of Civil Aviation Authority during its 265th meeting held on 8th December, 2010, Master Plan to be prepared for standardization of Commercial concessions/shops and space to be allocated according to the Master Plan”.

During special audit of the Commercial activity of Civil Aviation Authority, it has been noted that commercial concessions / shops and space were allocated on the proposals of the concessioners / licensee without location plan which is mandatory requirement to comprehend the location, which is very ambiguous.

Audit observed that the Executive Committee in its 265th meeting held on 8th December, 2010 categorically directed that space to be allocated must be according to the master plan which has not been implemented despite a lapse of a considerable period of six years and space allocations at all the Airports were being made without any master plan and without obtaining NOC from the Architect Branch of the Authority.

Audit holds that visual/look of the terminal building is very important as it is the face of the country which makes the first impression on any visitor; therefore, the aesthetic of terminal building should not be tarnished at all by haphazard growth of commercial concessions.

Audit pointed out the issue in February-March 2017. The Authority replied that the New Master Plan of JIAP is still under process and has not yet been finalized in view of the future expansion plans; the same will be submitted once completed. The reply was not tenable because according to decision taken by the Executive Committee of Civil Aviation Authority during its 265th meeting held on 8th December, 2010, Master Plan to be prepared for standardization of Commercial concessions/shops and space to be allocated according to the Master Plan”. The decision of the committee was not implemented despite a lapse of more than five years.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s).

(Para 21)

4.35 Non-recovery and deposit of advance tax

Clause 31 of agreement for concessionary provides that the licensee shall pay/ clear all taxes and to the concerned agencies with respect to the business or the premises leviable under any law and submit immediately copies of such receipts, challans or payments as may be required in writing by the licensee/Airport Manager. Section 236A (Advance tax at the time of sale by auction) of the Income Tax Ordinance 2001, provides that any person making sale by public auction [or auction by a tender], of any property or goods [(including property or goods confiscated or attached)] either belonging to or not belonging to the Government, local Government, any authority, a company, a foreign association declared to be a company under sub-clause (vi) of clause (b) of sub-section (2) of section -80, or a foreign contractor or a consultant or a consortium or Collector of Customs or Commissioner of [Inland Revenue] or any other authority, shall collect advance tax, computed on the basis of sale price of such property and at the rate specified in Division VIII of Part IV of the First Schedule, from the person to whom such property or goods

are being sold. For the purposes of this section, sale of any property includes the awarding of any lease to any person, including a lease of the right to collect tolls, fees or other levies, by whatever name called.

Audit noted that Director Commercial and Estates Civil Aviation Authority awarded 1,177 commercial and semi commercial licenses to the licensees during the period July 2010 to June 2016 all over Pakistan.

Audit observed that the since the date of commencing the business by the licensees, the advance tax @ 10% as required under Income Tax Ordinance, was not recovered from the licensees. This resulted in non-recovery and deposit of advance tax from 1,177 concessions as detailed below:

S No	Location	Period	No. of licenses
1	Karachi	2010 to 2016	541
2	Lahore	2010 to 2016	348
3	Islamabad	2010 to 2016	198
4	Faisalabad	2010 to 2016	21
5	Multan	2010 to 2016	37
6	Peshawar	2010 to 2016	32
Total			1,177

Audit pointed out the issue in February-March 2017. The Authority replied that CAA is making continuous efforts for recovery of advance income tax from all the concessions which are awarded through tender auction at all Airports. However, the concessionaires have taken the plea that the said tax is not applicable to them, and in this regard M/s STHN & Co. a licensee of CAA for the concession of Car Parking and Cargo Throughput Charges at AIIAP Lahore filed a law suit and challenged the applicability of section 236A of Income Tax Ordinance 2001, under writ petition No. 28728/2015, wherein court has passed direction for Commission Inland Revenue to decide the issue in writing whether tax under Section 236A of Income Tax Ordinance, 2001 is payable by M/s STHN & Co or shall issue exemption Certificate under the

law, if so permissible within 30 days, however the decision of Commissioner Inland Revenue is still awaited. It is further submitted that, as per the order of the court, CAA is barred from claiming the amount of tax under Section 236A of Income Tax Ordinance, 2001 till the time an order to that effect is issued by the Collector / Commissioner Inland Revenue, therefore, further course of action with respect to recovery of advance income tax shall be taken after resolution of issue by Commissioner Inland Revenue. The Authority admitted audit contention.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s) besides recovery of advance tax from the licensees.

(Para 10A, 10B, 22 & 60)

4.36 Violation of Agreement's clause due to non-obtaining of insurance coverage for business concessions

As per Clause-30 of the license agreement, the licensee within fifteen (15) days of the signing of this agreement shall obtain and maintain insurance coverage of sufficient value, as may be determined by the Licensor/ Airport Manager in the name of the licensee, from a reputable insurance company or underwriter as approved by the licensor against all incidents, costs, expenses, charges, damages, actions, claims and demands as aforesaid. The licensee is also bound to provide on demand of the licensor/ Airport Manager or his authorized representative, the insurance policy obtained and financed exclusively by the licensee and any receipt(s) for the premiums paid. The failure of the licensee in this respect shall result in automatic cancellation of the license without any prior notice by the licensor without any liability on the licensor of any nature whatsoever.

Audit noted that Director Commercial and Estates Civil Aviation Authority awarded 1,177 commercial and semi commercial licenses to the licensees during the period July 2010 to June 2016 all over Pakistan, as follows:

S No	Location	Period	No. of licenses
1	Karachi	2010 to 2016	541
2	Lahore	2010 to 2016	348
3	Islamabad	2010 to 2016	198
4	Faisalabad	2010 to 2016	21
5	Multan	2010 to 2016	37
6	Peshawar	2010 to 2016	32
Total			1,177

Audit observed that not in a single case the required insurance coverage was obtained by the Authority from the licensees in violation of the agreement clause. Audit is of the view that it was mandatory clause of the agreement and the licensees were bound to obtain the insurance at their own cost to safeguard the CAA assets. Due to non-obtaining insurance coverage the licensees saved the cost of premium, hence the cost of premium @ 1% of the license value may be recovered from the licensees.

Audit holds that non-obtaining insurance coverage was due to weak internal/financial controls.

Audit pointed out the issue in February-March 2017. The Authority replied that HQCAA has instructed all airport's managers to get copies of insurance coverage/policy from all the concessionaires. Subsequently JIAP has also instructed the same to the concessionaires. The authority accepted the audit contention; further action will be watched in Audit Office.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s) besides insurance coverage of the licenses or recovery of premium.

(Para 59)

4.37 Illegal operation of Dangerous Goods import by the operator despite of suspension

As per Sr. Joint Director Cargo letter No. JIAP/1396-03/001/KCCG/I dated 26th March 2016, M/s Gerry's Dnata's operation of Dangerous Goods import was suspended by the competent authority vide letter No. JIAP/1396-03/17/KCCG/I dated 20th February 2016.

Audit noted that M/s Gerry's Dnata was a licensee/operator at Jinnah International Airport for Cargo/Ground handling and running his business for years.

Audit observed that the operator carried out the shipping/import of Dangerous Goods despite of suspension and without being informing the Authority officials at Cargo Complex as evident from various letters issued by the Sr. Joint Director Cargo. As per detail given by the operator himself that they have imported/stored 75 Dangerous Goods Shipments from 20th February 2016 to 9th March 2016, after that no record was available in file to ascertain that when the suspension was withdrawn and how much import operation was done by the operator after 9th March 2016. Audit is of the view that this is an alarming situation and a serious security risk.

Audit pointed out the issue in February-March 2017. The Authority replied that license of M/s Gerry's Dnata was suspended to import Dangerous Goods but they allowed to managing the operations through M/s SAPS. M/s Gerry's Dnata handling their DGR from ICG after the 8th June, 2014 terrorist attack but due to space constraint there DGR operation were suspended temporarily till the proper space allocation. After that representative of HQCAA and JIAP visited the AFU and new space allocated to them which was properly constructed and started their regular DGR operation from there. During the period of suspension, they only handled the previously booked DGR according to Gerry's Dnata. The reply was not tenable because the documentary evidences showing

previously booked DGR by Gerry's Dnata prior to suspension was not provided

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s).

(Para 70)

4.38 Excess collection of Throughput charges by the contractors

As per Para C4 of CAAO-002-ASCG-1.0, the Cargo Throughput Charges must be levied as per IATA tariff, in case of overcharging by the contractor Cargo Manager should pursue the complaints of importers and initiate necessary action against the contractor.

Audit noted that Civil Aviation Authority outsourced the function of collection of Cargo Throughput charges on all the imports at airports. The contractors are collecting the said charges from the importers and pay to CAA a fixed monthly license fee to the Authority.

Audit observed that the contractors of Cargo Throughput Charges were over charging from the importers at almost all the airports and many importers / firms have lodged complaints as well as court cases for such overcharging whereas, no punitive action against the contractors has been initiated by the Authority. This situation also resulted in creation of bad image of the Authority. Audit further observed that outsourcing all the import and collection of Cargo Throughput charges cannot be fruitful to Authority, if the Authority carry out the said functions at its own, it would result in generation of more revenue and transparency as well as the image of the Authority will also improve.

Audit pointed out the issue in February-March, 2017. The Authority replied that the contractors are collecting the said charges from the importers and pay to CAA a fixed monthly license fee to the authority. This is the responsibility of Commercial inspectors to monitor the activity

of the said contractors. The matter may be referred to concerned authority and outcome be shared with Audit.

The para could not be discussed in DAC meeting.

Audit recommends to investigate the issue and action be taken against the responsible(s).

(Para 81)

5. CONCLUSION

5.1 Key issues for the future

- i. Civil Aviation Authority's Commercial Policy CAAO-004-CMPP-1.0 may be reviewed and aligned with Public Procurement Rules, 2004.
- ii. Measures be taken to remove encroachments on Authority's lands and structures.
- iii. Effective measures be adopted to mutate land in the name of Authority.

5.2 Lessons identified

- i. Internal controls be periodically reviewed and strengthened to safeguard the interest of the Authority.

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