



**AUDIT REPORT
ON
THE ACCOUNTS OF
TELECOMMUNICATION SECTOR
AUDIT YEAR 2014-15**

AUDITOR-GENERAL OF PAKISTAN



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ABBREVIATIONS & ACRONYMS

| | | |
|--------|---|--|
| ADP | : | Annual Development Plan |
| ADE | : | Assistant Divisional Engineer |
| APC | : | Access Promotion Contribution |
| BOQ | : | Bill of Quantity |
| CGA | : | Comptroller General of Accounts |
| CMA | : | Controller Military Accounts |
| CFO | : | Chief Financial Officer |
| CPC | : | Central Procurement Committee |
| DAC | : | Departmental Accounts Committee |
| DDO | : | Drawing & Disbursing Officer |
| DP | : | Defence Production |
| DPLC | : | Domestic Private Leased Circuits |
| DSALM | : | Digital Subscribers Line Access Module |
| DSC | : | Departmental Selection Committee |
| DWP | : | Development Working Party |
| DWDM | : | Dense Wavelength Division Multiplexing |
| ECC | : | Economic Coordination Committee |
| ECNEC | : | Executive Committee of National Economic Council |
| FAB | : | Frequency Allocation Board |
| FAC | : | Final Acceptance Certificate |
| FBA&AP | : | Financial Budgeting Accounting & Audit Procedure |
| FCC | : | Final Capital Cost |
| FCF | : | Federal Consolidated Fund |
| FOB | : | Freight on Board |
| FWO | : | Frontier Works Organization |
| 3 G | : | Third Generation |
| GSM | : | Global Systems of Mobile |
| HIT | : | Heavy Industries Taxilla |
| ISP | : | Internet Service Provider |
| ISPAK | : | Internet Service Providers Association of Pakistan |
| LC | : | Letter of Credit |
| MoIT | : | Ministry of Information Technology |

| | | |
|-------|---|--|
| MoDP | : | Ministry of Defence Production |
| MODD | : | Magneto Optical Disk Drivers |
| MSDN | : | Multi Services Data Network |
| MSAGS | : | Multi Services Access Gateways |
| NIDA | : | National Interest Daily Account |
| NMS | : | Network Management System |
| NOC | : | No Objection Certificate |
| NTC | : | National Telecommunication Corporation |
| NTDC | : | National Transmission & Dispatch Company |
| NRTC | : | National Radio Telecommunication Corporation |
| OFC | : | Optical Fiber Cable |
| PAO | : | Principal Accounting Officer |
| PAC | : | Provisional Acceptance Certificate |
| PCC | : | Provisional Capital Cost |
| PEMRA | : | Pakistan Electronic Media Regulatory Authority |
| PPRA | : | Public Procurement Regulation Authority |
| PRI | : | Primary Rate Interference |
| PSDP | : | Public Sector Development Programme |
| PTA | : | Pakistan Telecommunication Authority |
| PTCL | : | Pakistan Telecommunication Company Limited |
| RBS | : | Radio Base Service |
| RIO | : | Reference Interconnect Offer Agreement |
| ROW | : | Right of Way |
| SCO | : | Special Communications Organization |
| SDH | : | Synchronized Digital Hierarchy |
| SECP | : | Security Exchange Commission of Pakistan |
| STM | : | System Transfer Module |
| TDR | : | Term Deposit Receipts |
| TIP | : | Telephone Industries of Pakistan |
| USF | : | Universal Service Fund |
| UMGs | : | Universal Media Gateways |
| VHF | : | Very High Frequency |
| UHF | : | Ultra High Frequency |
| WLL | : | Wireless Local Loop |

Preface

Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973, read with the Sections 8 and 12 of the Auditor General's Ordinance 2001, require the Auditor General of Pakistan to conduct the audit of receipts and expenditure out of the Fedreal Consolidated Fund and Public Account.

The Directorate General of Audit, Posts, Telegraphs and Telephones, Lahore, on behalf of the Auditor General of Pakistan conducts the audit of Postal and Telecommunication Sector. Accordingly the audit of the accounts of Telecommunication Sector for the financial year 2013-14 was conducted during 2014-15 on test check basis with a view to reporting significant findings to the relevant stakeholders. The main body of the Audit Reprot includes only the systemic issues and audit findings carrying value Rs 1 million or more.

The Audit Report is on the accounts of various organizations of Telecommunication Sector which are under the administrative control of Cabinet Division, Ministry of Defence Production and Ministry of Information Technology. The Audit Report contains findings on the serious issues and relatively less significant issues are listed in the Annex-I of the Audit Report and are pursued with the Principal Accounting Officers.

The Report has been finalized in the light of replies received from the management concerned and discussions in the DAC meetings. The Audit findings indicate the need for adherence to the regularity framework besides instituting and strengthening internal controls to avoid recurrence of similar violations and irregularities.

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

Sd/-

Muhammad Akhter Buland Rana
Auditor General of Pakistan

Dated: 28th April, 2015

EXECUTIVE SUMMARY

The Audit Report presents results of the audit of accounts of Telecommunication Sector entities which includes financial years 2012-13 and 2013-14 of Pakistan Telecommunication Authority (PTA), Information Communication Technology Research and Development (ICTR&D) and Universal Service Fund (USF) and 2013-14 of Frequency Allocation Board (FAB), National Radio Telecommunication Corporation (NRTC), National Telecommunication Corporation (NTC), Special Communications Organization (SCO) and Telephone Industries of Pakistan (TIP).

The organizations PTA, FAB, NTC, ICTR&D and USF were established under Pakistan Telecommunication (Reorganization) Act 1996 (Amended 2006). PTA and FAB are under the administrative control of Cabinet Division. ICTR&D, NTC, SCO, TIP and USF are under Ministry of Information Technology (MoIT) whereas, NRTC is administered by the Ministry of Defence Production (MoDP). SCO was established under the directives of Prime Minister in 1976 whereas NRTC and TIP are registered as private limited companies incorporated under the Companies Ordinance, 1984.

The Report has been finalized after consideration of the replies received from the management of these entities and discussions held in the DAC meetings with the respective PAOs. The FAB, NTC, ICTR&D and TIP did not provide the financial statements for the financial year 2013-14 therefore the audit could not comment on the financial health and discipline of these entities.

The Director General, Posts Telegraphs and Telephones Audit has the mandate to carry out the audit of above eight (08) Entities of Telecommunication Sector. However, the Audit of PTCL and its subsidiaries (PTET & TF) do not produce the audit record to DG Audit PT&T for conducting the constitutional audit despite the 18th Constitutional amendment and Article 170 (2).

The Directorate General Audit has the **budget allocation of Rs 51.674 million** for the financial year, deployed a human resource of **42 officers and staff** utilizing 3717 mandays for the audit of these entities.

a. Scope of Audit

The total budgeted allocation and expenditure of total 37 telecommunication entities for the financial year 2013-2014 was Rs 58,352.013 million. DG Audit (PT&T) has audited 22 entities and their expenditure of Rs 9,322.881 million which is 16% of the auditable expenditure.

b. Recoveries at the instance of audit

The recoverable of Rs 14,877.424 million were pointed out by audit, out of which recovery of Rs 4,924.287 million was affected so far till the finalization of this Report. Out of the total recoverables, Rs 461.110 million was not in the knowledge of the management before pointing out by audit (Annex II).

c. Audit Methodology

The desk audit could not be conducted because the accounts maintenance of telecommunication entities was not fully automated and data was not available online. However, the audit permanent files in the office of the DG Audit (PT&T) were updated after obtaining the relevant information from the entities which helped in the audit planning and to identify high risk areas. The human and financial resources were allocated for audit accordingly.

d. Audit Impact

On the advice of Audit, PTA has drafted its new accounting procedures / manual and submitted for approval of the Auditor General of Pakistan, the competent authority. It will improve the financial reporting of PTA for

better financial discipline. The accounting procedure of FAB is also under review of the competent authority. Further the telecom entities have started observance of PPRA Rules 2004 in letter and spirit since 2013-14 which may bring transparency in their procurement process.

e. Comments on Internal Controls

- i. Although the Internal Audit Establishments exist in the Telecommunication Entities, yet the Internal Audit Reports are neither prepared nor presented to the Audit Committees. Resultantly the Internal Audit is not able to bring substantial improvement in the financial and administrative discipline, management and operations of these organizations. Since the managements do not take action on these Reports, the irregularities of similar nature recur from year to year. Further the Internal Audit Reports are not produced to statutory audit despite requests.
- ii. The Internal Control System is not sufficient and effective and do not cover the weak areas of the management. The existing internal controls are not fully implemented, therefore not considered for decisions making by the management.
- iii. The revenue management was not effective as the controls were weak, aging record of receivables not maintained and their recovery was slow. As a result the operators approach Courts of Law to delay the payments.
- iv. The budgetary controls in SCO were not functioning effectively in some cases as the expenditure was incurred in excess of budget grants, whereas the savings were not surrendered by PTA and NTC in time.

f. Key audit findings

- i. Receivables management of telecom entities remained weak as a result the amount of Rs 13,842.897 million pointed out in sixteen (16) paras as per record of these entities are still not recovered.¹
- ii. Violations of PPRA Rules 2004, financial and service rules and contract agreements involving Rs 14,736.965 million were pointed out in thirty nine (39) cases.²
- iii. Insufficient internal controls in utilization of resources, promotions, appointments and unauthorized changes in the regulations involving Rs 955.481 million was noted in eight (08) cases.³
- iv. Unauthorized and irregular payments of extra allowances, financial benefits, bonus, proficiency incentives, qualification pay and payment of arrears amounting to Rs 91.586 million were highlighted in twelve (12) cases.⁴
- v. Unauthorized investment of funds amounting to Rs 1,742.080 million was observed in one (01) case.⁵
- vi. Insufficient internal controls and violation of various procedures / policies of these entities resulted in non deduction of income tax, monetary loss and irregular expenditure of Rs 89,267.647 million were observed in thirty six (36) cases.⁶
- vii. Unauthorized expenditure of Rs 106.652 million over and above the budget allocation was observed in one (1) case.⁷

¹ Para 1.14 to 1.17, 3.8, 4.4, 5.4 to 5.7, 6.7, 6.10, 7.6, 7.11, 7.13 and 8.16

² Para 1.1, 1.18, 3.4, 3.10 to 3.13, 4.5 to 4.9, 4.12, 4.13, 5.10, 5.12, 5.20, 5.23 to 5.27, 5.29, 5.31, 5.34, 5.36, 6.5, 7.7, 7.9, 7.15, 8.4 to 8.8, 8.10 to 8.12 and 8.14

³ Para 1.8, 4.15, 5.9, 5.13, 5.35, 6.9, 7.4 and 7.19

⁴ Para 1.4 to 1.7, 2.4 to 2.6, 5.14, 5.15, 5.32, 7.8 and 7.16

⁵ Para 5.11

⁶ Para 1.9, 1.11 to 1.13, 2.7 to 2.9, 3.5 to 3.7, 3.9, 3.14, 4.10, 4.11, 4.14, 5.8, 5.16 to 5.19, 5.21, 5.22, 5.28, 5.30, 5.33, 6.6, 6.8, 7.5, 7.10, 7.12, 7.14, 7.17, 7.18, 8.9, 8.13 and 8.15

⁷ Para 6.4

g. Recommendations

- i. The Telecom Entities concerned need to strictly comply the provisions of Article 78 (2) of the Constitution and ensure timely deposit and surrender of savings in the Federal Consolidated Fund and transfer of revenue.
- ii. The unlawful increases and unauthorized payments on various accounts to employees be stopped and overpayments recovered.
- iii. The compliance of Public Procurement Regulatory Authority (PPRA) Rules, 2004 for procurement of goods and services be ensured in letter and spirit.
- iv. FAB authorities are required to formulate the functional regulations and strengthen their internal controls for ensuring transparency in the allocation and monitoring of frequencies allocation.
- v. NRTC should strengthen the financial discipline as well as compliance of policies and procedures and ensure timely realization of receivables.
- vi. NTC / PTA Managements need to follow the approved service rules regarding utilization of resource, promotions, appointments, leaves.
- vii. The losses, irregularities, unauthorized payments and wasteful expenditures be got investigated, responsibilities fixed and disciplinary action taken against the officials held responsible.
- viii. The management should expeditiously implement the PAC / DAC directives as well as Audit recommendations.

SUMMARY TABLES AND CHARTS

Table 1: Audit Work Statistics**(Rs in million)**

| S.No | Description | No | Budget |
|------|---|----|---|
| 1 | Total PAOs under Audit Jurisdiction | 03 | Budget *58,352.013 Receipts *63,683.241 |
| 2 | Total formations under Audit jurisdiction | 37 | Budget *58,352.013 Receipts *63,683.241 |
| 3 | Total PAOs Audited | 03 | 122,035.254 |
| 4 | Total formations Audited | 22 | Budget 9,322.881 Non Budgeted 105,899.751 Receipts 21,180.430 |
| 5 | Audit and Inspection Reports | 22 | 136,403.062 |
| 6 | Special Audit Reports / Studies | - | - |
| 7 | Performance Audit Reports | - | - |
| 8 | Other Reports | - | - |

**The budget and receipts of PTA, ICT (R&D) and USF is for two years (2012-13 & 2013-14) being audited for two years.*

Table 2: Audit observations regarding Financial Management**(Rs in million)**

| S.No | Description | Amount placed under Audit Observation |
|--------------|---|---------------------------------------|
| 1 | Unsound asset management | 16.064 |
| 2 | Weak financial management | 106,460.830 |
| 3 | Weak Internal Controls relating to financial management | 12.279 |
| 4 | Others | 14,254.137 |
| Total | | 120,743.310 |

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

| S. No | Description | Expenditure on | | Receipts | Others | | Total current year | Total Last year |
|-------|-----------------------------------|-----------------------------|-------------|------------|------------|--------------|--------------------|-----------------|
| | | Procurement Physical Assets | Civil Works | | Budgeted | Non Budgeted | | |
| 1 | Outlays Audited | 139.421 | 86.439 | 21,180.430 | 9,097.021 | 105,899.751 | 136,403.062 | 16,564.175 |
| 2 | Monetary value of Observations | 12.279 | 3.288 | 14,266.913 | 561.079 | 105,899.751 | 120,743.309 | 8,418.904 |
| 3 | Recoveries at instance of Audit | - | - | - | 14,877.424 | | 14,877.424 | 3,262.77 |
| 4 | Recoveries accepted / established | - | - | - | 14,336.472 | | 14,336.472 | 3,021.233 |
| 5 | Recoveries realized | - | - | - | 4,924.287 | | 4,924.287 | 232.316 |

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

| S. No | Description | Amount under Audit Observation |
|-------|--|--------------------------------|
| 1 | Violation of rules and regulations and principles of propriety and probity in public operations. | 16,702.918 |
| 2 | Reported cases of fraud, embezzlement, thefts and misuse of public resources. | 0 |
| 3 | Accounting Errors (accounting Policy departure from IPSAS, misclassification, over or understatement of account balance) that are significant but are not material enough to result in | 0 |

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

| S. No | Description | Expenditure on | | Receipts | Others | | Total current year | Total Last year |
|-------|-----------------------------------|-----------------------------|-------------|------------|------------|--------------|--------------------|-----------------|
| | | Procurement Physical Assets | Civil Works | | Budgeted | Non Budgeted | | |
| 1 | Outlays Audited | 139.421 | 86.439 | 21,180.430 | 9,097.021 | 105,899.751 | 136,403.062 | 16,564.175 |
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| 3 | Accounting Errors (accounting Policy departure from IPSAS, misclassification, over or understatement of account balance) that are significant but are not material enough to result in | 0 |

| | | |
|--------------|--|--------------------|
| | the qualification of audit opinions on the financial statements. | |
| 4 | If possible quantify weaknesses of internal control systems. | 955.481 |
| 5 | Recoveries and overpayments, representing cases of establishment overpayment or misappropriations of public monies | 493.575 |
| 6 | Others, including cases of accidents, negligence etc. | 88,748.438 |
| 7 | Receivables | 13,842.897 |
| Total | | 120,743.310 |

**Total of S.No.4 and 6 above is equal to the amount of S.No.4 column 7 of table-3*

Table 5: Expenditure and Recovery

| (Rs in millions) | | |
|--|---|-----------------|
| S.No | Description | Amount |
| 1 | Outlays audited | 136,403.062 |
| 2 | Expenditure on Audit | 51.674 |
| 3 | Recoverable realized at the instance of Audit | 4,924.287 |
| Ratio of the audit year 2014-15 | | 95.3:1.0 |
| Ratio of the audit year 2013-14 | | 4.7:1.0 |
| Ratio of the audit year 2012-13 | | 12.5:1.0 |

CABINET DIVISION

CHAPTER-1

**PAKISTAN TELECOMMUNICATION
AUTHORITY**

1. PAKISTAN TELECOMMUNICATION AUTHORITY

1.1 Introduction

Pakistan Telecommunication Authority (PTA) is a corporate body established on 1st January, 1996 under Pakistan Telecommunication (Re-organization) Act, 1996 which was amended in 2006. The Authority is working under the administrative control of the Cabinet Division. The Auditor General of Pakistan is mandated to conduct the Audit of the accounts of PTA as per Section 15 of the Act. The main functions of Authority are as under:

- Act as the regulator to implement deregulation policy of telecommunication services issued by the Government of Pakistan (GoP);
- Grant and renew licenses for any telecommunication system and any telecommunication services on payment of regulatory fee;
- Regulate the establishment, operation and maintenance of telecommunication systems and the provision of telecommunication services in Pakistan;
- Promote and protect the interests of users, rapid modernization of telecommunication systems and providing a wide range of high quality efficient, cost effective & competitive telecommunication services in Pakistan;
- Make recommendations to the Federal Government on policies with respect to International Telecommunications; and
- Regulate arrangements amongst telecommunication service providers of sharing their revenue derived from provision of telecommunication service.

1.2 COMMENTS ON BUDGET AND ACCOUNTS

The Audit comments on the financial statements of PTA for the financial year ended June 30, 2013 are as under:

- 1.2.1 The cash flow statement for the financial year ended June 30, 2013 showed that PTA paid Rs 400 million on account of Federal Excise Duty whereas no explanation of the amount withheld from Federal Consolidate Fund on which the tax was paid was provided.

PTA management replied that PTA is not a business entity which could attract excise duty or sales tax; however, tax department levied the Federal Excise duty on PTA and recovered the amount. However, PTA had contested this levy at relevant forum.

The reply is not tenable because no explanation and record regarding deduction of Rs 400 million from bank account was provided by PTA authorities and no documentary evidence of taking up matter with FBR was available. It is held that in the absence of the details alongwith the documentary evidence regarding the whereabouts of the amount the misuse cannot be ruled out.

- 1.2.2 Cash flow statement showed that during the financial year 2011-12 PTA earned profit of Rs 577. 441 million on bank balance of Rs 159.634 million whereas in 2012-13 PTA earned profit of Rs 128.543 million on bank balances of Rs 4,936.931 million. The significant decrease in profit was not justified.

PTA management replied that the profit earning is based on the average of monthly balance, and not on the year end closing balance and the profit rate of NIDA accounts was higher in 2011-12.

The reply was not tenable because the month wise detail of bank statements and copies of notification of NIDA rates were not provided.

1.2.3 In financial statements no provision for payment of 3% of PTA receipts to Competition Commission of Pakistan as per IAS 37 (Note 4.1 & 4.2) as required according to MoF letter No.1/CCP/Admn/2009 dated 14th December, 2009 was made understating their liabilities and overstating profit.

It was replied that the provision for the amount to be paid to CCP at the rate of 3%, of the total receipts of PTA was not made because the matter has not been decided conclusively yet by the Ministry of Finance. However, if advised by the chartered accountants a contingent liability may be noted in the notes to financial statements.

The reply is misleading because the Government orders are required to be complied and making payment to CCP after duly creating liability in the financial statements is compulsory and does not require any advice from the chartered accountant of PTA.

1.2.4 In financial statements total receivables were Rs 15.641 billion. However, as per note 18.1.2 an amount of Rs 9.963 billion was unjustly netted off from initial license fee receivable from M/s Pakcom Limited in future periods pending decision of Supreme Court thereby irrationally reducing the receivables.

It was replied that this amount was considered to be due in future periods, if the term of license had continued forthwith, as the license relating to this amount is already cancelled / suspended therefore, the amount cannot become due and hence cannot be stated as receivable.

The reply is not tenable because in case the license was cancelled or suspended, the amount should not have been shown as receivable. Making provision in 2012-13 and then netting off the amount of Rs 9.963 billion for future receivable in the same year is not in conformity with the accounting policies.

1.2.5 Note 23 to financial statements depict an increase of Rs 161.010 million on exchange gain as compared with previous year. In the absence of any foreign currency transactions or foreign currency bank deposits, the increase is unjustified.

It was replied that Initial License Fee is recoverable from Cellular Mobile Operators in US Dollars, and any change in the rates of dollars creates a corresponding change in the amount to be received by PTA from those CMOs in respect of license fees.

The reply is misleading therefore not acceptable as PTA did not auction any license of mobile operators in 2012. No foreign currency account was maintained by PTA as evident from the financial statements and record of PTA. Therefore the recoverables in US Dollars from CMOs with future recoverables having exchange rate gain creates doubts.

1.2.6 Note 26.1 to the financial statements year ended June 30, 2012 showed that the Authority determined the amount of Credit Risk under different heads of its revenues, advances and receivables was Rs 2.546 billion. However, this amount for year ended June, 30, 2013 was Rs 1.742 billion which was less by Rs 804.290 million in credit risk. Therefore, this substantial decrease in Credit Risk is unjustified. Moreover, the management so far provides no details and working for this reduction.

It was replied that decrease in maximum exposure to credit risk at the reporting date is mainly due to the fees receivable from operators which are as per license conditions. Since the fees receivable in 2013 were lower, the credit risk was also accordingly lower.

The reply is not acceptable as PTA did not provide the documentary evidence and the reasons regarding decrease of fee receivable.

Comments on the financial statement for the year ended June 30, 2014

1.2.8 Financial Statements for the year ended June 30, 2014 showed a provision of huge amount of Rs 543 million (Note 19.2) on account of doubtful fee receivable as compared to previous year provision of Rs 554 million which was falsely treated as expenditure. This continuous unjust practice of showing huge amount as unidentified doubtful receivables deprives the Federal Consolidated Fund (FCF) every year.

No reply was furnished by the PTA management.

1.2.9 The cash flow statement (Note 4.3) for the financial year ended June 30, 2014 showed a payment of Rs 967 million on account of Federal Excise Duty however neither any explanation nor justification with documentary evidence was provided. The audit holds that the amount of Rs 967 million was unjustly withheld from Federal Consolidated Fund.

No reply was furnished by the PTA management.

1.2.10 Financial statements (Note 23) showed an expense of Rs 927.539 million on employees related expenses in 2014 whereas in previous year it was Rs 567.797 million. The increase of 63% is not justified as no hiring was allowed due to Government ban on recruitment and also not in line with the relevant range of incremental effect.

No reply was furnished by the PTA management.

1.2.11 Financial statements (Note 5.1) ending June 30, 2014 showed a payment of Rs 1.254 billion by PTA on account of tax on USF and R&D contributions. These are Public Account owned and controlled by the Federal Government therefore not liable for any tax deduction. Apparently some other expenditure of PTA was booked falsely against the Public Account as above by PTA reducing the share of FCF.

No reply was furnished by the PTA management.

1.2.12 Financial statements (Note-14) ending June 30, 2014 showed that an amount of Rs 7.789 million was charged by PTA as depreciation on Leasehold Land in contravention to International Accounting Standards 16. As per law the land is always appreciated and no depreciation is charged on Land. It is held that the amount was wrongly projected as depreciation on land whereas it was meant to unlawfully reduce the contribution to FCF.

No reply was furnished by the PTA management.

1.2.13 Financial statements (Note 21.2) ending June 30, 2014 showed that there was a balance of Rs 2.340 billion in Escrow Account as on 30-06-2014. PTA is required to provide operator wise detail of contribution made to this account by the operators and how PTA is recognizing income / interest earned on this balance in its Financial Statement.

No reply was furnished by the PTA management.

1.3 STATUS OF COMPLIANCE WITH PAC DIRECTIVES

PTA, CABINET DIVISION

Following table shows the compliance status of PAC directives.

| S.No | Audit Year | Total Paras | Total Directives | Compliance received | Compliance not received | %age |
|------|------------|-------------|------------------|---------------------|-------------------------|------|
| 01 | 1997-98 | 07 | 07 | 07 | 00 | 100 |
| 02 | 1998-99 | 12 | 12 | 08 | 00 | 67 |
| 03 | 1999-00 | 06 | 06 | 05 | 00 | 83 |
| 04 | 2000-01 | 31 | 31 | 28 | 03 | 90 |
| 05 | 2001-02 | 09 | 09 | 05 | 04 | 56 |
| 06 | 2002-03 | 03 | 03 | 03 | 00 | 100 |
| 07 | 2003-04 | 08 | 08 | 05 | 03 | 57 |
| 08 | 2004-05 | 08 | 08 | 05 | 03 | 57 |
| 09 | 2005-06 | 10 | 10 | 8 | 2 | 80 |
| 10 | 2006-07 | 08 | 08 | 01 | 07 | 13 |
| 11 | 2008-09 | 26 | 26 | 11 | 15 | 42 |

AUDIT PARAS

1.4 Unauthorized increase of orderly allowance and overpayment - Rs 1.110 million

According to the Finance Division OM No.F.1(38)/Imp-II/88 dated 11.7.1988, No.F.1(1)/ Imp/94 dated 26.6.99, No.F.4(2)/R-4-99 dated 13.1.2000 and No.F-4(8)R-4/2004 dated 19th July, 2004, the financial matters including revision of pay & allowances etc cannot be decided without approval of the Finance Division. Further, the orderly allowance has been revised for BPS-20 to BPS-22 to bring it at par with minimum wages and fixed as Rs 7,000 per month by the Finance Division vide OM No.F-1(13)Imp/96 dated 19-10-2007.

Para 8 of DDO handbook of autonomous bodies stipulates that the funds provided, acquired or generated by the autonomous/semi-autonomous bodies and corporations are public funds which cannot be utilized at the sole discretion of the management. The funds should be utilized with due care and caution strictly in accordance with the prescribed rule or specific order of the Government.

PTA management paid an amount of Rs 1.110 million to 09 employees during 2012-13 and 2013-14 on account of orderly allowance at enhanced rates of Rs 13,000 per month instead of Government notified rate of Rs 7,000 per month. The practice of overpayment is continuing for previous years despite pointing out by audit in previous Audit Reports. Detail is as under:

| S. No. | Name & Designation | 01-07-12 to 30-06-14 (24 months) | | |
|--------|--------------------------------|----------------------------------|---------------------------|---------------|
| | | Amount due @ Rs 7000/- | Amount Paid @ Rs 13,000/- | Overpaid (Rs) |
| 01 | Mr. Yawar Yaseen, DG | 168,000 | 312,000 | 144,000 |
| 02 | Brig(R)Aslam Shahab Hassan, DG | 168,000 | 312,000 | 144,000 |
| 03 | Mr. Wasim Tauqir, DG | 168,000 | 312,000 | 144,000 |

| | | | | |
|--------------|---|------------------|------------------|------------------|
| 04 | Mr.Tariq Sultan, DG | 168,000 | 312,000 | 144,000 |
| 05 | Mr.Sajjad Latif Awan, DG | 168,000 | 312,000 | 144,000 |
| 06 | Dr.Muhammad Saleem, DG | 168,000 | 312,000 | 144,000 |
| 07 | Mr.Muhammad Talib Dogar, DG | 168,000 | 312,000 | 144,000 |
| 08 | Syed Nasrul Karim Ahmad Ghaznavi, Ex-Member(Finance)* | 56,000 | 104,000 | 48,000 |
| 09 | Dr.Khawar Siddique Khokhar Ex-Member(Tech)** | 63,000 | 117,000 | 54,000 |
| TOTAL | | 1,295,000 | 2,405,000 | 1,110,000 |

*The period of overpayment for the Sl.No.8 above is taken as 08 months.

**The period of overpayment for the Sl.No.09 above is taken as 09 months.

The overpayment was reported in September 2014 and it was replied in December 2014 that PTA pay package was approved by Finance Division and duly notified by Cabinet Division vide its letter No. 3/5/2004-RA-1/PTA dated 21st April 2007 which provides under paragraph 2(2) that, *“Other perquisites and fringe benefits like official vehicles, indoor medical facility, hospitalization, TA/DA, leaves etc., shall be governed under the relevant PTA regulations and welfare schemes.”* Furthermore, Ministry of Law & Justice through its opinion dated 29th June, 2011 clarified that in matters relating to section 10(3) of the Act, PTA is not only self competent but legally allowed / empowered to issue regulations for appointment, promotion, termination and other terms and conditions of employment of its employees without any prior or post facto approval of the Federal Government, Establishment Division or Finance Division under the provisions of the Act.

The reply was misleading therefore, not acceptable. The pay packages of PTA employees and increases / adhoc reliefs were approved by the Finance Division. Therefore, the payment of orderly allowance over and above the rates prescribed by the Finance Division is held unauthorized.

DAC in its meeting held on 21st January, 2014 decided that PTA may prepare parameters / yardstick to decide increase in pay & allowances. In view of PAC decisions on similar paras, the DAC further decided to keep this para for consideration of PAC.

Audit recommends that responsibility for unauthorized overpayment and violation of rules be fixed, recovery of the overpaid amounts be made from the persons besides disciplinary action against the persons responsible and discontinue illegal practice under intimation to Audit.

No further progress was reported till finalization of this Report.

(Based on PDP No.02)

1.5 Unlawful payment on account of conveyance allowance at enhanced rates - Rs 20.00 million

According to the approved pay package of PTA circulated by the Cabinet Division vide No.3/5/2004-RA-1/PTA dated 25th July, 2007 conveyance allowance @ 15% of the mean of the pay scales is allowed to the PTA employees.

Para 8 of DDO handbook of autonomous bodies stipulates that the funds provided, acquired or generated by the autonomous/semi-autonomous bodies and corporations are public funds which cannot be utilized at the sole discretion of the management. The funds should be utilized with due care and caution strictly in accordance with the prescribed rule or specific order of the Government.

In violation of the above the PTA management overpaid unlawfully an amount of Rs 20.129 million to its employees on account of arrears and monthly payment of conveyance allowance at enhanced rates of 30% without approval of Finance Division during 2012-13 and 2013-14.

The unlawful overpayment was reported in September 2014 and it was replied in December 2014 that conveyance allowance @ 15% of mean of the scale was being paid to the employees working in SG-I to EG-3. The GoP revised the conveyance allowance due to increase in POL prices and the extra burden being borne by the employees while performing their duties. In line with the revision made by the GoP, Authority approved the

revision of conveyance allowance from 15% to 30% of mean of the scale for the PTA employees.

The reply was not tenable because the conveyance allowance at enhanced rate of 30% was not approved by the Finance Division.

DAC in its meeting held on 21st January, 2014 decided that PTA may prepare parameters / yardstick to decide increase in pay & allowances. In view of PAC decisions on similar paras, the DAC further decided to keep this para for consideration of PAC.

Audit recommends that responsibility for unlawful overpayment of conveyance allowance on enhanced rates and violation of rules be fixed, recovery of the overpaid amounts be made besides taking disciplinary action against the persons held responsible and discontinue the practice of paying payment without approval of Finance Division.

No further progress was reported till finalization of this Report.

(Based on PDP No.03)

1.6 Unlawful payment on account of arrears of proficiency incentive and Eid reward - Rs 7.364 million

Sl.No.17 of Annex-I of system of Financial Control and Budgeting issued by the Ministry of Finance vide No. F.3(2)/Exp.III/2006 dated 13th September, 2006 states that relevant rules and policy instructions issued by the Finance Division from time to time are duly observed and the grant of proficiency incentive is not used as a device to compensate the employees for special pay etc.

Para 8 of DDO handbook of autonomous bodies stipulates that the funds provided, acquired or generated by the autonomous/semi-autonomous bodies and corporations are public funds which cannot be utilized at the sole discretion of the management. The funds should be utilized with due care

and caution strictly in accordance with the prescribed rule or specific order of the Government.

PTA management paid an amount of Rs 7.364 million during 2012-13 to its employees on account of arrears payable as difference of proficiency incentive and Eid reward as a result of revision of pay package. The payment of arrears held unlawful being as not covered in the PTA Employees Service Regulations 2008 as well as violation of rules / standing instructions of the GoP.

The unlawful payment was reported in September 2014 and it was replied in December 2014 that when difference of regular pay / salary is paid due to its approval after its effective date, all other incentives / allowances associated with the pay / salary also becomes due. The arrears were paid in pursuance of approval of the competent authority, in exercise of powers conferred upon him under the provision of the Act, PTA Employees Service Regulations, 2008.

The reply was misleading and therefore not acceptable. The arrears on account of proficiency incentive and Eid reward are neither covered under PTA Act, Regulations nor allowed under other financial rules and the Government.

DAC in its meeting held on 21st January, 2014 directed the PTA management to affect recovery on account of unlawful payment of difference of proficiency incentives and Eid reward in easy installments and get it verified from audit.

Audit recommends that responsibility for unlawful payment and violation of rules be fixed for taking disciplinary action, recovery of the amounts from the persons concerned be made besides discontinuing illegal practice of payment of arrears of rewards and incentives.

No further progress was reported till finalization of this Report.

(Based on PDP No.04)

1.7 Unauthorized payment on account of supplementary allowance - Rs 13.816 million

According to Finance Division (Regulation Wing) letter No.4(9)R-4/2008-PTA-FAB dated 28th May, 2014, the standing committee of Finance Division has allowed grant of Adhoc Relief Allowance 2012 @ 20% of basic pay to the employees of Pakistan Telecommunication Authority (PTA) and Frequency Allocation Board (FAB) w.e.f 01.07.2012.

PTA management paid Rs 13.816 million during 2013-14 unlawfully allowing Adhoc Relief (Supplementary Allowance) @ 10% of basic pay in addition to the 20% Adhoc Relief without approval of the Finance Division and in violation of the Finance Division orders. Further, PTA opened a new head of account for the subject allowance in violation of the already approved chart of accounts appended with the accounting procedure 2006 approved by CGA and Auditor General of Pakistan.

The unlawful payment was reported in September 2014 and it was replied in December 2014 that 10% Adhoc Relief (Supplementary) Allowance was not in addition to the 20% Adhoc Relief Allowance. The 10% allowance was for 2013 and was given w.e.f 1st July, 2013 whereas 20% was from 1st July, 2012. The Authority approved the 10% supplementary allowance by following the provisions of the Act and PTA Regulations.

The reply was misleading therefore not acceptable. The 10% supplementary allowance was not approved by the Finance Division being approving authority for PTA packages.

DAC in its meeting held on 21st January, 2014 decided that PTA may prepare parameters / yardstick to decide increase in pay & allowances. In view of PAC decisions on similar paras, the DAC further decided to keep this para for consideration of PAC.

Audit recommends that responsibility for unlawful payment, violation of rules and operating an unlawful head of account be fixed for taking disciplinary action, recovery of the amounts from the persons concerned be made besides discontinuing illegal practice of payment of supplementary allowance.

No further progress was reported till finalization of this Report.

(Based on PDP No.06)

1.8 Unlawful taking away of Government vehicles after expiry of contract

According to the approval of the then Administrative Ministry (Ministry of Communication), and adopting the PTCL transport policy, the PTA officers of Grade 20 and above on normal retirement are entitled for retention of official vehicles on book value. However, the officers on deputation, move-over or contract are not eligible for such provisions of vehicle on book value. PTA management extended this facility to the MP Scales holders against the spirit of MP scales and the policy without approval of the Federal Government.

Administration wing of PTA processed on 8th August, 2012 for handing over the official vehicles to Member (Finance) and Member (Technical) on expiry of their contract agreement in violation of the transport policy of PTA and terms and conditions of their contract. The PAC instructions issued on 16th June, 2011 in similar case pointed out in previous Audit Reports were blatantly ignored and unjust favour was extended to the ex-members at the cost of public exchequer.

The vehicles were unlawfully taken away by the members on expiry of their contracts but PTA management neither recovered the vehicles nor lodged an FIR in violation of the instructions of PAC. It is held that undue favour was extended to the contractual members using delaying tactics. The vehicles are in unlawful possession of ex-members of PTA for last over 02 years. Detail is as under:

| S. No | Vehicle No. | Model | Name of Officers | Date of retirement |
|--------------|--------------------|---------------------|-------------------------|---------------------------|
| 1 | GB-154 | Toyota Corolla 2005 | Ex-Member (Finance) | 23.02.2013 |
| 2 | GT-211 | Toyota Corolla 2008 | Ex-Member (Tech) | 16.03.2013 |

The matter was reported in September 2014 and it was replied in December 2014 that vehicles are still the property of PTA as registration books and other necessary documents have not been handed over to the concerned ex-members.

The reply was misleading therefore not acceptable. The official vehicles are in unlawful use of the ex-members and mere holding of registration books do not ensure the custody of vehicles by PTA. Despite lapse of considerable time period the Authority did not recover the vehicles which are subjected to continuous use and deterioration.

DAC in its meeting held on 21st January, 2015 decided to work out the book value of quoted vehicles as of the date of retirement of officers concerned on the analogy of monetization policy. The amount so calculated either may be recovered or the vehicles may be retrieved.

Audit recommends that the official vehicles should immediately be recovered from ex-members who were in MP scales and neither covered under monetization policy of the Government nor entitled to such benefits. In case of failure to recover the vehicles, FIR be lodged against them as well as person held responsible for allowing them to take away the vehicles besides recovering the cost of the vehicles and wear and tear from them under intimation to Audit.

No further progress was reported till finalization of this Report.

(Based on PDP No.15)

1.9 Non-deduction of Income Tax – Rs 7.049 million

According to Section 12 (1) of Income Tax ordinance, 2001 any salary received by an employee in a tax year, other than salary that is exempt from tax under this Ordinance, shall be chargeable to tax in that year under the head “Salary”. Salary means any amount received by an employee from any employment, whether of a revenue or capital nature, including any pay, wages or other remuneration provided to an employee, including leave pay, payment in lieu of leave, overtime payment, bonus, commission, fees, gratuity or work condition supplements (such as for unpleasant or dangerous working conditions).

Contrary to the above, PTA management did not include the payment of Proficiency Incentives for the years 2012-13 & 2013-14 in the salary for the purpose of calculation of tax. This resulted into less / non-deduction of Income Tax of Rs 5,970,636. Furthermore, heavy amount of honorarium was paid to the employees of Ministry of Information Technology and other attached offices but the Advance Income @ 5% was not deducted which comes to Rs 1,078,666. Audit calculated the non-deduction of Income Tax on test check basis which comes to Rs 7,049,302 as detailed below:

| S.No | Description | Amount (Rs) |
|--------------|---|------------------|
| 01 | Income Tax for the year 2012-13 (PTA) | 426,892 |
| 02 | Income Tax for the year 2013-14 (PTA) | 5,543,744 |
| 03 | Income Tax for the year 2013-14 (MoIT & others) | 1,078,666 |
| TOTAL | | 7,049,302 |

The matter was reported in September 2014 and it was replied in December 2014 that according to Clause 139 of Part 1 of 2nd schedule of Income Tax Ordinance, 2001 an amount equivalent to 10% of basic salary is exempted from salary income in respect of medical allowance. Audit had not considered the exemption covered under the Income Tax Ordinance,

2001. 2nd segment is related with payment of proficiency to the employees of MoIT, in this case, as per income tax slab rates for salaried class an amount of Rs 400,000 is exempt from income tax. Therefore, payment made to employees of MoIT & other attached offices was not taxed at source. Government of Pakistan has also introduced Self Assessment Schemes, where the tax payer has to submit the annual tax return based on the total taxable income and adjust subsequent tax rebate. Hence, MoIT employees are required to submit return and have to discharge their legal liability towards taxable income.

The reply was not tenable because audit calculated income tax after inclusion the proficiency incentives and cash reward in the monthly salaries as required in the Income Tax Ordinance 2001. It is the responsibility of the withholding agent i.e PTA to include the payment of incentives in the monthly salary for the purpose of calculation and deduction of Income Tax. As regard to MoIT and other attached offices, 5% advance tax is required to be deducted from the payment made by PTA on account of incentives which was not deducted.

DAC in its meeting held on 21st January, 2015 directed PTA to determine the due amount of income tax and get it recovered and verified from audit.

Audit recommends that PTA should re-visit the calculation and deduction of income tax after inclusion of all incentives for the whole employees and get it recovered. In case of MOIT and other attached offices minimum 5% advance tax should be recovered OR documentary evidence be provided, in case the amount of the incentives was declared in the income tax returns by the individuals.

No further progress was reported till finalization of this Report.

(Based on PDP No.13)

1.10 Short / non-deposit of surplus funds into Federal Consolidated Fund - Rs 3,272.263 million

As per section 12 Sub Section (3) of Pakistan Telecommunication (Re-Organization) Act, 1996, any surplus of receipts over the actual expenditure in a year shall be remitted to the Federal Consolidated Fund and any deficit from the actual expenditure shall be made up by the Federal Government.

The Commercial Auditors of PTA calculated the net surplus for the year ended June 30, 2013 for depositing into Federal Consolidated Fund according to the above provisions. However, PTA did not deposit the requisite amount into Federal Consolidated Fund which resulted in short deposit of Rs 3,272.263 million as detailed below.

(Rs in million)

| S. No | Description | Amount as per Financial Statement | Amount deposited | Short deposited amount |
|--------------|--------------------------------|-----------------------------------|------------------|------------------------|
| 01 | Net Surplus for the year 2012 | 3,200,090,324 | 1,350,000,000 | 1,850,090,324 |
| 02 | Net Surplus for the year 2013* | 2,722,172,736 | 1,300,000,000 | 1,422,172,736 |
| TOTAL | | | | 3,272,263,060 |

*The amount was deposited on 17th February, 2014.

PTA did not deposit the surplus amount at the end of financial year as per provisions of Pakistan Telecommunication (Re-organization) Act but with a considerable delay of 8 to 9 months every year. Bank balances monthly report for the year ended June 30, 2014 showed end balance on 30th June, 2014 of Rs 4.798 billion. But PTA management did not calculate and deposit the surplus for the year 2013-14 till 5th September, 2014.

The non deposit of surplus was reported in September 2014 and it was replied in December 2014 that the surplus receipts over the actual expenditure in a year are transferred to FCF after the close of financial year

and when the external audit is completed. The external audit is completed in September each year and there is no delay in depositing the surplus to FCF. As regard to non-deposit the surplus will be deposit when the external audit for the year ended 30th June, 2014 is completed.

The reply was not tenable as the surplus was deposited on 17th February, 2014 whereas the external audit was completed in September every year. Furthermore, the amount of surplus determined by the external auditors was not remitted to the FCF.

DAC in its meeting held on 21st January, 2015 directed that PTA should have a mechanism which ensure deposit of surplus fund in FCF within one month just after completion of commercial audit besides the verification of amount deposited so far from audit within one week.

Audit recommends that responsibility be fixed for delayed / non-deposit of surplus into FCF besides depositing the requisite amount into FCF within 02 months under intimation Audit.

No further progress was reported till finalization of this Report.

(Based on PDP No.16)

1.11 Unlawful withdrawal from USF account - Rs 765.403 million

According to Section 33 A (1) & (2) of Telecommunication (Re-organization) Act 1996, “the Federal Government shall by notification in the official Gazette, establish a Fund to be called the Universal Service Fund (USF). The USF shall be under the control of the Federal Government and therein shall be credited any sums of money grants made by the Federal Government and Provincial Government, prescribed contributions by the licensees, sale proceeds from auction of the right to use radio spectrum, loans obtained from Federal Government and grants and endowments received from other agencies”.

Further, the Federal Government shall have the power to administer the USF in such manner as may be prescribed. The USF shall be utilized exclusively for providing access to telecommunication services to people in the un-served, underserved, rural and remote areas and other expenditure to be made and incurred by the Federal Government in managing USF.

In contravention of the above, PTA management unlawfully withdrew an amount of Rs 765.404 million from USF account and deposited into PTA collection account NIDA-11 as follows.

| S. No. | Voucher No. & date | Description | Amount Rs |
|--------------|--------------------|--|--------------------|
| 01 | BP-212/26.09.2012 | Transfer of funds from USF account to PTA collection account | 62,000,000 |
| 02 | BP-218/28.11.2012 | -do- | 606,475,218 |
| 03 | BR-574/28.06.2013 | Collected receipt on behalf of USF contribution but deposited in NIDA 11-1 PTA collection account instead of NIDA 22-8 USF account | 96,928,588 |
| TOTAL | | | 765,403,806 |

The amount was unlawful withheld from the Public Account by PTA.

The matter was reported in September 2014 and it was replied in December 2014 that recoverable amount from Public Account No.GA 11288 in PTA's Financial Statement due to Initial License Fee transferred to Public Account and taxes paid on behalf of USF and R&D Funds. In the 24th USF Board Meeting held on 31st May 2011, the board agreed that Initial License Fee charged from Mobile Operators has been incorrectly treated as Spectrum Auction Proceeds, and directed that hence forth, Initial License Fee (wherever applicable) should not be considered as Spectrum Auction Proceeds, although both are points of Federal Consolidated Funds (FCF). Accordingly, PTA recorded the Initial License Fee that was previously shown as payable to Public Account, as payable to FCF, and as a result, the

ILF of Rs 2,664,427,962 already transferred to Public Account become recoverable. As on June 27, 2013, the balance of Rs 7,675,261,593 was recoverable from Public Account and the amount of Rs 96,928,588 was available in PTA's USF bank account No.NIDA 22-8 which was transferred to NIDA-11 in order to adjust the recoverable amount. After this transfer, the balance of amount recoverable from Public Account was Rs 7,578,333,005.

The reply is misleading therefore not acceptable. PTA was mandated for collection of USF receipts and depositing it into Public Account. PTA does not have the authority to withdraw or adjust any funds arbitrarily from Public Account without approval of the Government and reconciliation of the amounts deposited into Public Account maintained by MoIT. Audit holds that the amounts as given in the reply are not reliable. Therefore, total amount recoverable from Public Account at MoIT, the amount deposited into PTA USF account and amount transferred to NIDA-11 are required to be calculated right from the beginning and after due reconciliation, the total amount should be deposited into Federal Consolidated Fund.

DAC in its meeting held on 21st January, 2015 decided to reconcile the figures with MoIT and also hold facts finding inquiry to determine as to why such irregularity occurred and to suggest corrective measures. The inquiry committee shall be comprised of representative from Cabinet Division, MoIT DFA (Cabinet) and PTA not below the rank of Deputy Secretary / BPS-19 and to be headed by Joint Secretary Cabinet Division.

It is recommended that a facts finding enquiry be conducted, responsibility fixed for financial indiscipline and mismanagement, withholding the amount from Federal Consolidated Fund, arbitrarily and unauthorizedly transferring and adjusting the amounts over the years and without reconciliation. The actual amount payable into FCF should be calculated right from the beginning and after due reconciliation transferred from USF / MoIT and NIDA-11 to FCF within 02 months under intimation to Audit.

No further progress was reported till finalization of this Report.

(Based on PDP No.14)

1.12 Loss due to allowing unlawful unlimited mobility of EVO services and 3G to PTCL - US\$ 511 million (Pak Rs 51.100 billion)

According to De-regulation Policy 2003, Clause 4.1.10, Access Promotion Rules, 2004 Clause 2(1)(m) and PTCL License condition 4.5.2, all WLL operator have to implement single cell (signals for improvement) limited mobility in their local loop without any segregation between voice and data.

PTA issued a determination on 13th July, 2005 directing all Wireless Local Loop (WLL) operators to implement single cell limited mobility, in case of violation PTA was to take legal action under the provisions of Pakistan Telecommunication (Re-organization) Act, 1996. A verification survey was conducted by PTA (Enforcement Division) in August-September 2012 and the results reported to Director General Licensing on 14th February, 2013 after a delay of five (05) months. The results revealed that none of the WLL operators was complying with the directions issued on 13th July, 2005. PTA issued warning letters to all WLL operators instead of taking legal action as required in the Act.

Further, Internet Service Providers Association of Pakistan (ISPAK), lodged a complaint to PTA Authority on 11th February, 2014 that PTCL planned to kill the 3/4G spectrum auction before even its commencement. PTA had already allowed illegally a backdoor entry of 3G to PTCL with full mobility on payment of the cost of WLL spectrum. Therefore, PTCL had been using its EVO service with full mobility of 3G for last many years in violation of the license conditions deceiving the Government. Similar official complaint was already made on 31st December, 2012 by M/s Nayatel to PTA continued its connivance and illegal favour to PTCL without taking any action.

Due to unlawfully allowing illegal usage of 3G EVO services by the PTCL on 1900 MHz band allocated for WLL services, the loss of US\$ 511 million (Pak Rs 51.100 billion) was inflicted to the national exchequer as detail below.

(Rs in million)

| S.No. | Description | Amount US\$ | Amount (Rs) |
|-------|--|----------------|-------------------|
| 01 | Cost of Mobile Cellular License | 291.000 | 29,100.000 |
| 02 | Cost of WLL license for all telecom regions (10+10) MHz CDMA | 75.000 | 7,500.000 |
| | Difference between both (01-02) | 216.000 | 21,600.000 |
| 03 | Loss on account of 3G spectrum used by PTCL on the basis of base price set in the auction for 10 MHz | 295.000 | 29,500.000 |
| | Total Estimated Loss | 511.000 | 51,100.000 |

The matter was reported in September 2014 and it was replied in December 2014 that PTCL was issued Final Warning letter No.8-01/13/WLL&M/PTA dated 13th March, 2014 for implementation of limited Mobility for both Voice and Data Services. As a consequence of warning letter, a Show Cause Notice (SCN) was approved by the Authority for issuance. However, the PTA's letter No.8-01/13/WLL&M/PTA dated 13th March, 2014 was challenged by PTCL in Sind High Court (SHC) in Suit (483 of 2014) and SHC suspended operation of PTA's letter dated 13th March, 2014. PTA took strict action against the licensee on 13th March, 2014 with the clear instructions of imposition of heavy fine, suspension / termination of license in case of continued violation. However, the said letter was suspended by Sind High Court decision in Suit (483 of 2014).

The reply is totally misleading and not tenable because 3G, unlimited mobility was allowed illegally by PTA and the delay in taking action was to facilitate the PTCL further. The stated warning letter issued on 13th March, 2014 to PTCL does not justify the claim of issuing instructions of imposition of penalty and termination of license. The delay in taking action provides an opportunity to the operator for a court case.

DAC in its meeting held on 21st January, 2015 directed the PTA management to pursue the court case vigorously and final outcome be got verified from audit.

Audit recommends that a high level inquiry be conducted into the unlawful allowing of 3G to PTCL, causing huge loss of Government revenue of Rs 51.100 billion through connivance and delaying tactics, fix the responsibility and recover the amount from the persons held responsible / licensee and credit into FCF besides taking disciplinary actions against the persons held responsible under intimation to Audit.

No further progress was reported till finalization of this Report.

(Based on PDP No.24)

1.13 Non taking of legal action, punishment of imprisonment or fine of Rs 10 million against unauthorized users of radio frequency spectrum

FAB is responsible for the Wireless functions, to investigate all complaints regarding interference of frequencies and take appropriate action as considered necessary. According to Section 23 of Pakistan Telecommunication (Re-organization) Act, 1996 (Amended 2006), where a licensee contravenes any provision of this Act or the Rules made there under or any term or condition of the license, the Authority or any of its officers not below the rank of Director may by a written notice require the licensee to show cause within thirty days as to why an enforcement order may not be issued. Section 31(1) (n) and (2) *ibid* further states that unauthorized use of the radio spectrum is offence and shall be punishable with imprisonment, which may extend to three years, or with fine which may extend to ten million rupees, or with both.

During the course of Audit monitoring reports generated by the Frequency Allocation Board (FAB) and sent to PTA for legal action were requested. As a result only two figures as detailed below on the subject were provided instead of the reports and legal action.

| S.No | Year | Description | Number of Reports | Frequency spot vacated |
|--------------|-------------|---|--------------------------|-------------------------------|
| 01 | 2012-13 | Identified spots and summon / legal notices | 729 | 671 |
| 02 | 2013-14 | Identified spots and summon / legal notices | 429 | 348 |
| Total | | | 1158 | 1019 |

However, during audit of FAB for the year 2012-13 it was noticed that FAB sent the monitoring reports regarding illegal use of frequencies to PTA for legal action on monthly basis. PTA did not take timely action and issued only general letters to the illegal users with a delay of one year. The reports sent to PTA by FAB were showed unlawfully using of frequencies of FM radio stations, VHF / UHF, WLL 450, WLL 1900, GSM 1800, data links etc. on non-assigned frequency spots by the operators of these and using extra bandwidth and cable leakage signals of different cable operators. PTA did not initiate any legal action of imprisonment or fine of Rs 10 million for illegal use of frequency in violation of the above provisions.

The matter was reported in September 2014 and it was replied in December 2014 that FAB carries out monitoring of frequency spectrum through its monitoring stations situated in major cities all over the country. The cases are then compiled and shared with PTA. FAB completes the monitoring in one month and the compilation of report in another month. After receipt of monthly spectrum monitoring report, PTA analyzes the same and accordingly PTA issued Summon and Legal Notice under Section 5 (2) of the Act to licensed as well as non-licensed entities. Out of 1158 illegal frequency spots reported by FAB, 1019 frequency spots have been vacated. There is no delay on the part of PTA.

The reply was not tenable because during audit only two figures of reported case was provided and despite continuous requests the actions taken by the PTA were not provided. Moreover, as per FAB record no legal actions had been taken by FAB or PTA.

DAC in its meeting held on 21st January, 2015 directed the PTA management for streamlining the procedure as stated in the reply and recovery on account of fine, if any, be got verified from audit.

Audit recommended that responsibility should be fixed for non taking of legal actions timely and all relevant record including actions taken be got verified from audit.

No further progress was reported till finalization of this Report.

(Based on PDP No.25)

1.14 Non recovery of annual regulatory dues – Rs 89.119 million

According to para 4.4.1 of General conditions of license, the licensee shall pay all annual fees to the Authority within 120 days of the end of the financial year to which such fees relate. Para 4.4.2 states that in addition to any other remedies available to the Authority, late payment of all fees including initial license fee shall incur an additional fee calculated at the rate of 2% per month on the outstanding amount for each month or part thereof from the due date until paid.

Contrary to the above, PTA management failed to recover an amount of Rs 89.119 million on account of Annual Regulatory Dues from the operators during 2013-14.

The matter was reported in September 2014 and it was replied in December 2014 that CM Pak Limited has cleared its dues of Rs 1.905 million vide Cheque No.361989 dated 22nd July, 2014. As regard to basic telephony the operators have cleared the dues for the years ended June 30, 2013 & 2014 as under:

| S.No | Operators | Description | Amount as per the Audit | Actual Amount (Rs) |
|------|-----------|-------------------------------------|-------------------------|--------------------|
| 1 | PTCL | Excess Balance of ALF December 2013 | 3,270,422 | (675,538) |

| | | | | |
|---|-----|------------------------------------|-----------|-----------|
| 2 | SCO | Opening balance | 1,776,915 | 171,685 |
| 3 | NTC | Excess Balance of ALF June 2013 | 2,342,996 | (160,501) |

As regard to the recovery of RBS dues, the position is as under:

| | | |
|-----|---------------------------------|------------|
| (a) | Amount due as per audit | 50,990,472 |
| (b) | Amount due as per RBS record | 15,741,785 |
| (c) | Amount received at RBS division | 5,818,795 |
| (d) | Balance payable | 9,922,990 |

The reply was not tenable as the record / receivable ledgers provided to audit showed the amounts outstanding against the CMPAK, basic telephony and RBSs operators. The figures of receivables taken after detailed discussion with the Finance, RBS and Audit Division, therefore, if the amounts have already been cleared then why the same was not taken into the party wise ledgers. Further, the recovery of CMPAK relates to the year ended December 31, 2012 whereas audit pointed out the figures relating to December 31, 2013.

DAC in its meeting held on 21st January, 2015 directed PTA to carry out detail verification as well as reconciliation and furnish report to audit within one month. DAC further directed PTA to ensure preparation of authentic record and providing thereof to audit in next Audit.

Audit recommends that responsibility should be fixed to those who were at faults for provision of un-authentic record besides verification of recovered amounts.

No further progress was reported till finalization of this Report.

(Based on PDP No.34)

1.15 Non recovery of outstanding dues on account of USF, R&D, APC for USF and ARSF - Rs 2,643.317 million

According to section 4.1 under head payment of fee of license the licensee shall contribute to Universal Service Fund in an amount calculated on the basis of 1.5% and R&D contribution @ 0.5% of its annual gross revenue. Section 4.4.1 further stipulates that the licensee shall make this contribution within 120 days of the end of financial year.

PTA management failed to recover an amount of Rs 2.644 billion on account of USF Charges and R&D contribution, APC for USF and Annual Radio Frequency Spectrum Fee from the operators during 2013-14 in violation of the above.

The matter was reported in September 2014 and it was replied in December 2014 that the payments of USF and R & D were made directly to MoIT by the operators. MoIT then intimates PTA all the payments received in their bank accounts and after the receipt of intimation PTA books the entries in the ledgers. PTA had requested MoIT to update the status of the payments received from the operators so that ledgers are updated accordingly. As regard to APC for USF, demand notes were issued to the operators but they did not make payment. Due to non-receipt of payments show cause notices were issued and hearings have also conducted. However, enforcement orders were being issued shortly. As regard to APC for USF the amounts are directly deposited in MOIT by the operators.

The reply was misleading therefore not acceptable because efforts were not made for recovery of the outstanding dues on account of APC for USF as required in the Act. Further, as per Act and Rules PTA is collector for APC for USF therefore, remedial measures should be taken to collect the amounts.

DAC in its meeting held on 21st January, 2015 directed PTA to carry out detail verification as well as reconciliation and furnish report to audit

within one month. DAC further directed PTA to ensure preparation of authentic record and providing thereof to audit in next Audit.

Audit recommends immediate compliance of the DAC directives.

No further progress was reported till finalization of this Report.

(Based on PDP No.35)

1.16 Undue favour to operators resulting in less realization of revenue - Rs 374.171 million

According to Section 4.1.2 of the license, the licensee shall pay the annual regulatory dues/fees, to the Authority calculated on the basis of 0.5% Annual License Fee, 0.5% Research & Development Fund and 1.5% & 2% Universal Service Fund (or such lesser amount as the Authority may, by Regulations, determine) of the licensee's annual gross revenue from licensed services for the most recently completed financial year of the licensee minus inter-operated payments and related PTA/FAB mandated payments. However, Initial License Fee and Initial Spectrum Fee shall not be deducted from the gross revenue.

The Gross Revenue means the turnover or gross income from the licensed services exclusive of trade discount shown on invoice of bills, derived from sales of goods or from rendering, giving or supplying services or benefits or from execution of contracts. Hence, according to the license terms and conditions, Federal Excise Duty/Sales Tax is part of gross revenue for the purpose of calculation of Annual Regulatory dues.

PTA management issued demand notices to the operators by deducting Federal Excise Duty/Sales Tax from gross revenue for the calculation of Annual Regulatory Dues in violation of the above. This resulted into less realization of revenue of Rs 374.171 million. Summary of less realization is as under:

| S.No | Name of Operator | Period | Less realized (Rs) |
|--------------|---------------------------|-------------------|---------------------------|
| 01 | M/s Mobilink Pakistan Ltd | December 31, 2013 | 3,037,161 |
| 02 | M/s Telenor (AJK & GB) | December 31, 2013 | 9,470,699 |
| 03 | M/s Telenor (AJK & GB) | December 31, 2012 | 12,040,474 |
| 04 | M/s Telenor (Pvt) Ltd | December 31, 2013 | 349,622,374 |
| TOTAL | | | 374,170,708 |

The issue of less realization was reported in September 2014 and it was replied in December 2014 that the Auditor's definition of revenue is not in line with the International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS 18). International Accounting Standard 18 "Revenue" defines as "The gross inflow of economic benefits during the period arising in the course of ordinary activities of an entity when those inflows result in increase in equity, other than increases relating to contributions from equity participants". The license does not state that FED/sales tax is a part of gross revenue. The Cellular Mobile Operators (CMOs) sell scratch cards which include 19.5% Federal excise duty; 15% withholding tax (Payable to FBR by CMOs). The remaining amount is revenue for CMOs. Therefore, the gross revenue cannot include FED / Sales tax for calculation of Annual Regulatory Dues (ARDs).

The reply was not tenable as the IAS-18 deals with the presentation of the accounts and not for the gross revenue. The regulations of PTA and license conditions, clearly define the way of calculation of fee on Annual Gross Revenue but did not describe the gross revenue after deducting the FED/Sales Tax.

DAC in its meeting held on 21st January, 2015 directed PTA to obtain clarification on account of gross revenue from Finance Division (Regulation Wing) and furnish report to the PAO and audit.

Audit recommends that a facts finding enquiry be made to find out the reasons for changing the calculations from 2009-10 to onwards and amount less realized be recovered and get it verified from audit.

No further progress was reported till finalization of this Report.

(Based on PDP No.36)

1.17 Non recovery on account of ISF and SAF – Rs 2.619 billion

According to para 4.1 of license, payment of fees, and the licensee shall pay the initial license fees to the Authority as per schedule given by the Authority. Further, section 30 of Pakistan Telecommunication (Re-organization) Act, 1996, states that all fees, fines or other amounts due or payable to the Authority may be recovered as arrears of land revenue. Clause 1.2.1 of Appendix (Fees related to Radio Frequency Spectrum) of Mobile License issued under section 21 of the Pakistan Telecommunication (Re-organization) Act, 1996, further states that in addition to any other fees payable by the Licensee under this License, the Licensee shall pay an annual fee within 120 days of the close of Financial Year to the Authority on the bases of per MHz per annum for 75% of the FAB budgeted expenditure divided by actual total spectrum allocated to all the mobile operators.

PTA did not recover an amount of Rs 2.619 billion on account of initial license fee and spectrum administrative fee (SAF) from the operators till June 2014. Detail is as under:

| S. No | Name of Operator | Billing (Rs) | Recovery (Rs) | Balance (Rs) |
|--------------|--------------------|--------------|---------------|----------------------|
| 01 | M/s Mobilink (ISF) | 0 | 0 | 2,490,960,000 |
| 02 | M/s Ufone (SAF) | 211,813,812 | 83,981,667 | 127,832,145 |
| TOTAL | | | | 2,618,792,589 |

Non-recovery of receipts reflects ineffective financial management of PTA and weak internal controls devised for realization of receivables.

The matter was reported in September 2014 and it was replied in December 2014 that nothing was outstanding on account of initial License Fee from Mobilink. During financial year 2013-14, Initial License Fee amounting to US\$ 14,550,000 (Rs 1.577 billion) was recoverable from Mobilink which was paid by them on 5th December, 2013. The DN of Rs 83.982 million was issued to Ufone for the payment of ASAF which was paid by Ufone accordingly. The balance amount of Rs 127.832 million was already paid against ASAF by Ufone on 4th November, 2011 under protest. The Case of ASAF was Subjudice in Supreme Court of Pakistan. On 26th February, 2014, Supreme Court passed an order in favor of Ufone. As per enforcement order dated 26th February, 2010 Rs 150 million were outstanding against Ufone as penalty. Ufone requested vide letter dated 14th February, 2014 that the amount of Rs 127.832 million be adjusted against Penalty amount of Rs 150 million. Therefore, the amount of Rs 127.832 million was adjusted. As regard to ASAF an amount of Rs 48.034 million was received from Warid Telecom. However, as per Clause 1.2.1 of Appendix-2 of License issued to Warid Telecom, Warid pays its dues of ASAF by 30th October every year.

The reply was not tenable because the party wise receivable ledgers provided to Audit showed the balance recoverable as on 30th June, 2014. As regard to ASAF the party wise ledger showed the balance recoverable against M/s Ufone, however, recovery against M/s Warid was accepted.

DAC in its meeting held on 21st January, 2015 directed PTA to carry out detail verification as well as reconciliation and furnish report to audit within one month. DAC further directed PTA to ensure preparation of authentic record and providing thereof to audit in next Audit.

It is recommended that facts finding inquiry should be conducted to find out the facts for provision of unauthentic record of receivables and fix the responsibility to those who were at faults besides verification of recovered amount.

No further progress was reported till finalization of this Report.

(Based on PDP No.37)

1.18 Irregular appointment of daily wagers on regular basis

The Cabinet Sub Committee on regularization of contract/ daily wages employees approved the case of forty five (45) contract/ daily wages employees of Pakistan Telecommunication Authority subject to fulfillment of recruitment criterion with the permission of Federal Government for creation of equivalent post for the adjustment of these officials. The subject minutes circulated by the Establishment Division vide OM No. 3/5/2011-Admn.I dated March, 2013 and Cabinet Division letter No 1/1/2012-coord/RA-IV dated 10th April, 2013. Furthermore, Part-II of PTA Employees Service Regulations, 2008 briefly described the methods of appointment.

Test check of file regarding regularization of daily wagers and pay fixation it was observed that PTA management did not observe the other conditions as specified in the PTA Employees Service Regulations, 2008 as directed by the Cabinet Sub-Committee in its meeting at the time of regularization of the daily wager employees. Following irregularities have been observed:

- (i) The HR department had confirmed vide para 29 of portal file that sufficient posts did not exist in the sanctioned strength of PTA at the time of regularization of the daily wagers. Therefore, the regularization without availability of the posts stands irregular.
- (ii) All PTA employees are contractual employees except the vested employees to some extent. The services of contractual employees can be terminated as under:

"Para 24 of PTA Employees Service Regulations 2008 states that the contract may be terminated, without assigning any reason, by the

Chairman or by the employee concerned on one month's notice or one month Gross salary in lieu thereof, as the case may be". PTA Employees Service Regulations, 2008 did not specify the appointment on regular basis, therefore, the regularization of daily wagers did not cover under these Regulations.

- (iii) The Member (Finance) PTA showed his concerned in para 26 & 29 of portal file and directed that the required number of posts may be got sanctioned from the Authority first and at the time of sanctioning of the posts it may be decided what is regular and what is contractual. In paras 18 to 21 of hard files, he finally suggested that the employees should be engaged / appointed on regular basis by advertising the position, duly sanctioned by the Chairman as per decision of the Cabinet Committee.
- (v) The HR department by passing all the reservations of the Authority Member route the file through Director General (G&EA) and get it approved from the Chairman which is serious violation of the Rules, Regulations and provision contained in Pakistan Telecommunication (Re-organization) Act.

The matter was reported in September 2014 and it was replied in December 2014 that the said appointments were made before the constitution of the current Authority of PTA. The Cabinet Sub-Committee on regularization of contract / daily wagers employees in Ministries / Divisions / Attached Departments / Autonomous Bodies / Organizations etc. approved the case for the regularization of 45 daily wagers of PTA. In its pursuance, Chairman PTA in exercise of the powers conferred under Regulation 6 of PTA Employees Service Regulations, 2008, created 45 vacancies to adjust these regularized individuals.

The reply was not totally misleading therefore not acceptable. The regularization was made in violation of the service regulations 2008 and the

recommendation of the cabinet sub-committee.

DAC in its meeting held on 21st January, 2015 directed the PTA management to examine the matter in the light of September 2014 verdict of honourable Supreme Court of Pakistan within a week and get the record verified from audit.

Audit recommends that facts finding inquiry should be conducted at appropriate level for fixation of responsibility.

No further progress was reported till finalization of this Report.

(Based on PDP No.18)

CHAPTER-2
FREQUENCY ALLOCATION BOARD

2. FREQUENCY ALLOCATION BOARD

2.1 Introduction

Frequency Allocation Board (FAB) was established on 1 January, 1996 under the Pakistan Telecommunication (Reorganization) Act, 1996, placed under the administrative control of the Cabinet Division and funded by PTA. Section 42 of Telecommunication (Reorganization) Act 1996 provides the accounts to be audited by the Auditor General of Pakistan. FAB is managed by a Board appointed by the Government of Pakistan and follows the applicable recommendations of the International Telecommunication Union.

Its main functions are to:-

- Allocate and assign frequency spectrum to the public sector providers of telecommunication services and systems, radio and television broadcasting operations, public and private wireless operators and others and
- Monitor the sphere and determine illegal users of frequencies and report to PTA for action under the Act.

2.2 Comments on Budget and Accounts

FAB management did not provide the annual audited accounts till finalization of the Report despite continuous pursuance by Audit. Hence, no comments on accounts could be offered.

2.3 Status of Compliance with PAC Directives

FAB, CABINET DIVISION

Following table shows the compliance status of PAC directives.

| S. No | Audit Year | Total Paras | Total Directives | Compliance | | %age |
|-------|------------|-------------|------------------|------------|--------------|------|
| | | | | Received | Not received | |
| 1 | 1997-98 | 02 | 02 | 02 | 00 | 100 |
| 2 | 1998-99 | 05 | 05 | 05 | 00 | 100 |
| 3 | 1999-00 | 04 | 04 | 04 | 00 | 100 |
| 4 | 2000-01 | 03 | 03 | 03 | 00 | 100 |
| 5 | 2002-03 | 08 | 08 | 07 | 01 | 88 |
| 6 | 2003-04 | 05 | 05 | 04 | 01 | 80 |
| 7 | 2004-05 | 04 | 04 | 02 | 00 | 50 |
| 8 | 2005-06 | 10 | 10 | 10 | 00 | 100 |
| 9 | 2006-07 | 03 | 03 | 02 | 01 | 67 |
| 10 | 2008-09 | 06 | 06 | 03 | 03 | 50 |

AUDIT PARAS

2.4 Unlawful overpayment on account of conveyance allowance - Rs 8.594 million

According to para 4.3 (5) of FAB Employees Service Regulations 2007 and pay package circulated by the Cabinet Division vide No.3/5/2004-RA-1/PTA dated 25th July, 2007 conveyance allowance @ 15% of the mean of the pay scales are allowed to the FAB employees.

FAB management overpaid an amount of Rs 8.594 million to its employees on account of conveyance allowance at enhanced rates @ 30% in line with PTA during 2013-14. The conveyance allowance at enhanced rates was not approved by the Finance Division for FAB / PTA, therefore, payment held unlawful.

The overpayment was reported in September 2014 and it was replied in December 2014 that Finance Division vide its O.M. No F.4(15)R-4/2004(pt) dated 7th September, 2009 approved FAB as sister organization of PTA and also conveyed that PTA's pay & allowances so revised and modified will also be applicable in case of employees of FAB. Para 4.3 (8) of the FAB Employees Service Regulations-2007 also provides that any revision of Pay Package by PTA will also be applicable to the employees of FAB. PTA's Authority in view of sky rocketing inflation and increase in transportation fares allowed the revision of conveyance allowances from 15% to 30% of the basic pay and paid arrears of conveyance allowance to its employees. Therefore, FAB management also revised conveyance allowance on the analogy of PTA and paid arrears to its employees strictly as per the approval of the Finance Division regarding extension of PTA's pay package to FAB.

The reply is misleading and not acceptable. The Finance Division did not allow revision of conveyance allowance to PTA and FAB employees' therefore arbitrary enhancement from 15% to 30% of

conveyance allowance was unlawful. Moreover illegal acts of PTA cannot be followed by FAB without exercising the vigilance and propriety.

DAC in its meeting held on 21st January, 2015 decided that the parameters / yardstick to be framed by PTA in compliance of DAC decision with regard to similar nature of PTA paras shall also be applicable to FAB. The DAC further decided to keep this para for consideration of PAC.

Audit recommends that responsibility for unlawful overpayment of conveyance allowance on enhanced rates and violation of rules be fixed, recovery of the overpaid amounts be made besides taking disciplinary action against the persons held responsible and discontinue the practice of paying payment without approval of Finance Division.

No progress was intimated till finalization of this Report.

(Based on PDP No.49)

2.5 Unauthorized payment on account of extra allowances and financial benefits - Rs 6.327 million

According to Finance Division (Regulation Wing) letter No.4(9)R-4/2008-PTA-FAB dated 28th May, 2014, the standing committee of Finance Division has allowed grant of Adhoc Relief Allowance 2012 @ 20% of basic pay to the employees of Pakistan Telecommunication Authority (PTA) and Frequency Allocation Board (FAB) w.e.f 01.07.2012. Further, the orderly allowance has been revised for BPS-20 to BPS-22 to bring it at par with minimum wages and fixed as Rs 7,000 per month by the Finance Division vide OM No.F-1(13)Imp/96 dated 19-10-2007.

FAB management paid Rs 6.327 million during 2013-14 unlawfully allowing Adhoc Relief (Supplementary Allowance) @ 10% of basic pay to its employees without approval of the Finance Division in addition to the 20% Adhoc Relief already granted by the Finance Division. Moreover, orderly allowance at enhanced rates of Rs 13,000 per month was also paid to its two officers in violation of the above.

Payment of un-approved allowance resulted into the gross violation of Financial Rules and overpayment. Further, employee's related payment in violation of the Finance Division creates future complications for recovery of the un-authorized payment.

The issue of extra allowances and financial benefits was reported in September 2014 and it was replied in December 2014 that Para 4.3 (8) of the FAB Employees Service Regulations-2007 provides that any revision of Pay Package by PTA will also be applicable to the employees of FAB. PTA's Authority in view of sky rocketing inflation granted supplementary allowance @ 10% of basic pay with effect from 1st July, 2013 for its employees. Therefore, FAB management in pursuance of above referred approvals extended supplementary allowance @ 10% of basic pay to its employees. As regard to orderly allowance, FAB Employees Service Regulations 2007 also contained the provision of Orderly Allowance to the entitled officers and payment was made to the entitled offices at the rate as specifically approved i.e @ Rs 13,000 per month for FAB Officers.

The explanation given in the reply was not tenable as the payment was made in violation of instructions of the Finance Division (Regulation Wing) and on un-approved rates, therefore, payment held unauthorized.

DAC in its meeting held on 21st January, 2015 decided that the parameters / yardstick to be framed by PTA in compliance of DAC decision with regard to similar nature of PTA paras shall also be applicable to FAB. The DAC further decided to keep this para for consideration of PAC.

Audit recommends that responsibility for unauthorized payment and violation of rules be fixed, recovery of the amounts be made from the persons held responsible for the payment besides disciplinary action and discontinue illegal practice.

No progress was intimated till finalization of this Report.

(Based on PDP No.45)

2.6 Unlawful payment of arrears on revision of pay package - Rs 12.767 million

According to Sl.No.17 of Annex-I of system of Financial Control and Budgeting issued by the Ministry of Finance vide No. F.3(2)/Exp.III/2006 dated 13th September, 2006 states that relevant rules and policy instructions issued by the Finance Division from time to time are duly observed and the grant of proficiency incentive is not used a device to compensate the employees for special pay etc. Para 8 of DDO handbook of autonomous bodies, the funds provided, acquired or generated by the autonomous/semi-autonomous bodies and corporations are public funds which cannot be utilized at the sole discretion of the management. The funds should be utilized with due care and caution strictly in accordance with the prescribed rule or specific order of the Government.

FAB management paid an amount of Rs 12.767 million to its employees on account of arrears of Proficiency Incentive and Cash Reward during 2013-14. The payment of arrears held unlawful being not covered in the FAB Employees Service Regulations 2007 as well as rules / standing instructions of the GoP. Detail is as under:

| S.No. | Vr. No. & Date | Description | Amount (Rs) |
|--------------|---------------------------|--|--------------------|
| 01 | 034/11.10.2013 | Arrears of Proficiency incentive | 8,855,219 |
| 02 | 190/30.06.2014 | Difference of Proficiency Incentive 2013 | 1,500,719 |
| 03 | -do- | Difference of Cash Reward 2012 | 897,072 |
| 04 | -do- | Difference of Cash Reward 2013 | 1,514,370 |
| TOTAL | | | 12,767,380 |

Payment of arrears of Proficiency Incentive and Cash Reward was made by violating all financial Rules despite pointing out the same in previous Audit Report which indicate weak financial management and non-existence of internal controls.

The unlawful payment of arrears was reported in September 2014 and it was replied in December 2014 that Para 4.3 of the FAB Employees Service Regulations-2007 contained provision for payment of Proficiency Incentive to FAB employees strictly in line with policy of PTA. During the Financial year 2013-2014 PTA paid proficiency incentive to its employees @ rate of 1.5 gross pay and FAB management accordingly paid arrears of proficiency incentive to its employees strictly in pursuance of Finance Division approval and provision of FAB Employees Service Regulations 2007. It is further Stated that Finance Division approved Adhoc Relief allowance 2012 @ 20%, for FAB Employees with effect from 1st July 2012 in May 2014. Accordingly, FAB management in pursuance of Finance Division approval implement the same with effect from 1st July, 2012. However, proportionate share of Cash reward 2012 & 2013 and Proficiency Incentive 2013 in shape of Adhoc Relief allowance 2012 was not paid till its approval and upon receipt of its approval from Finance Division, proportionate share was paid to FAB employees.

The reply was not tenable as the FAB had its own approved Regulations duly showing the provisions for grant of honorarium / cash reward. The FAB employee's service regulations as well as other financial regulations have no provision for payment of arrears therefore, payment was held unlawful.

Audit recommends that responsibility for unlawful payment and violation of rules be fixed for taking disciplinary action, recovery of the amounts from the persons concerned be made besides discontinuing illegal practice of payment of arrears of rewards and incentives.

DAC in its meeting held on 21st January, 2015 directed the FAB management to effect recovery on account of un-authorized payment of difference of proficiency incentives and Eid reward in easy installments and get it verified from audit. DAC further directed for verification of record relating to payment of proficiency incentive of Rs 8,855,219.

Audit recommends that responsibility for unauthorized payment and violation of rules should be fixed, recovery of the amounts be made from the persons held responsible for the payment besides disciplinary action and discontinue illegal practice.

No progress was intimated till finalization of this Report.

(Based on PDP No.46)

2.7 Non-deduction of Income Tax on proficiency incentives – Rs 3.441 million

According to Section 12 (1) of Income Tax ordinance, 2001 any salary received by an employee in a tax year, other than salary that is exempt from tax under this Ordinance, shall be chargeable to tax in that year under the head “Salary”. Salary means any amount received by an employee from any employment, whether of a revenue or capital nature, including any pay, wages or other remuneration provided to an employee, including leave pay, payment in lieu of leave, overtime payment, bonus, commission, fees, gratuity or work condition supplements (such as for unpleasant or dangerous working conditions).

FAB management paid heavy amounts on account of Proficiency Incentives to its employees during 2013-14. The subject amounts were neither included in the salary for the purpose of calculation of tax nor minimum 5% advance tax was deducted. This resulted into non-deduction of Income Tax of Rs 2.172 million.

FAB management also paid arrears of Proficiency Incentives / Cash Reward to its employees during 2013-14. In this case neither the Advance Income Tax @ 5% was deducted by the DDO at the time of payment nor included in the salary statement for the purpose of calculation of income tax. This also resulted into non-deduction of Income Tax of Rs 1,269,121. Thus total income of Rs 3.441 million was not deducted. Detail is as under:

| S.No | Description | Calculations | Amount (Rs) |
|--------------|--|---------------|------------------|
| 01 | Income Tax on arrears of Proficiency Incentive | 8,855,219x5% | 442,761 |
| 02 | Income Tax on arrears of Cash Reward | 3,912,161x5% | 195,608 |
| 03 | Income Tax on Cash Reward 2013-14 | 12,615,037x5% | 630,752 |
| 04 | Income Tax on Proficiency Incentive on 3G | 43,472,277x5% | 2,171,614 |
| TOTAL | | | 3,440,735 |

The matter was reported in September 2014 and it was replied in December 2014 that Under section -114 of the Income Tax Ordinance 2001 every employee him / herself is responsible to furnish Income Tax Return therefore, in order to accommodate employees for input adjustment of their withholding Income Taxes (already paid by them during the Financial Year under different transactions as narrated above) in their Tax Returns, Tax could not be calculated / deducted on Cash rewards and Proficiency Incentive but the amounts of the same were conveyed to them so that they can their self file their Income Tax returns online by logging on FBR website but 100% Income Tax was already calculated and deducted from employees Salaries and deposited with FBR and the same can be verified by Audit.

The reply was not tenable because section 12(1) of Income Ordinance 2001 is very clear regarding deduction of tax by the DDO at the time of payment. Therefore, Audit recommended that the amount of the tax be deducted and get it verified from Audit.

Considering the reply given by FAB the para was reduced to amount of Rs 2,171,614 since the remaining amount of income tax would not be applicable in case of recovery on arrears of proficiency incentive and cash reward. DAC directed FAB to deduct the due income tax on Rs 2,171,614 and get it verified from audit.

Audit recommends that responsibility for non-deduction of income tax should be fixed, recovery of the amounts from the persons held responsible for the payment besides disciplinary action and discontinuing illegal practice.

No progress was intimated till finalization of this Report.

(Based on PDP No.51)

2.8 Non taking of legal action, punishment of imprisonment or fine of Rs 10 million against unauthorized users of radio frequency spectrum

FAB is responsible for the Wireless functions, to investigate all complaints regarding interference of frequencies and take appropriate action as considered necessary. According to Section 31(1) (n) and (2) of the Telecommunication (Reorganization) Act, 1996, unauthorized use of the radio spectrum is offence and shall be punishable with imprisonment, which may extend to three years, or with fine which may extend to ten million rupees, or with both.

In violation of above rules, frequencies of FM radio stations, VHF / UHF, WLL 450, WLL 1900, GSM 1800, data links etc. were unlawfully using on non-assigned frequency spots by the operators of these and using extra bandwidth and cable leakage signals of different cable operators. FAB did not initiate any legal action of imprisonment or fine of Rs 10 million for illegal use of frequency in violation of the above rules.

Further FAB after establishment in 1996 on promulgation of Pakistan Telecommunication (Reorganization) Act, 1996 did not develop functional regulations despite lapse of seventeen (17) years in violation of Section 43 (7) of Pakistan Telecommunication Reorganization Act 1996, for exercising its powers and performance of its business.

It was noticed that FAB sent the monitoring reports regarding illegal use of frequencies to PTA for legal action on monthly basis but PTA did not

take timely action and issued general letters to the illegal users with a delay of one year. However neither any legal action was taken against the illegal users of frequencies nor any punishment awarded. FAB also did not pursue PTA in this regard and allowing illegal business in the country by these operators.

The matter was reported in September 2014 and it was replied in December 2014 FAB management stated that monitoring of interference of spectrum was the domain and responsibility of FAB and monitoring surveys were conducted on the request of PTA / PEMRA and other operators of the Telecom Sector including users of frequency spectrum. Further, the Authorities like PEMRA and PTA had separate enforcement departments for the issuance of enforcement orders and penalties under the umbrella of their Act / Ordinance whereas FAB had no enforcement department to issue any enforcement order or to take any legal actions against any violations. FAB is performing its all functions as per its domains as provided in the Act.

FAB has admitted the loss of huge revenue to the Government due to illegal use of frequencies for their businesses by the operators however irrelevantly shifted the responsibility to PTA and PEMRA on unjustified pretext. FAB has also failed to perform its functions of the wireless board assigned to FAB in 1996.

DAC in its meeting held on 21st January, 2015 desired that Cabinet Division (RA Wing) may look into the matter and report factual position to the PAO and audit within one month.

Audit recommends that the total amount of loss should be worked out against illegal use of frequencies, the operators and concerned agencies, recover the outstanding dues / fine along with the interest depositing into Government account within two months. The responsibility for the illegal favour should be fixed and disciplinary proceedings initiated against the

officials of PTA, PEMRA and FAB held responsible under intimation to audit.

No progress was intimated till finalization of this Report.

(Based on PDP No.53, 56)

2.9 Improper functioning of Internal Audit Wing

Internal Audit is a function of the executive and plays an important role to ensure the financial and administrative discipline, governance and transparency in an organization. Internal Audit is an independent, objective and consulting activity designed to add value and improve an organization's operation and helps to accomplish its objectives and improve the effectiveness of risk management and controls.

The Internal Audit Report for the year 2012-13 provided to audit revealed that no proper setup of internal audit was in place and Internal Auditor incharge of Internal Audit Wing was reporting to unauthorized forum of Executive Director through Director (Finance) and not directly to the Executive Director. The Internal Audit Report contained only the comments and comparison of expenditure on pay and allowances, repair maintenance and General Administrative Expenses with previous year's expenditure. The report did not contain any observation on functional, financial and service irregularities, mismanagement and other indiscipline.

The matter was reported in September 2014 and it was replied in December 2014 that FAB is a technical organization exclusively deals with sensitive matters of Spectrum Frequency Monitoring and allocation to serve the telecom industry in Pakistan. FAB had no source of revenue and is directly funded by PTA to meet its budgetary requirements. In the absence of any revenue stream and less operational and financial risk, the pre auditing of expenditure is more viable than establishment of full time Internal Audit Department. Therefore, the Internal Audit report contained the comments, comparison of expenditure on pay and allowances, repair and

maintenance and general administrative expenses. The existing Internal Auditor is a Master's Degree holder with more than 25 years experience of Audit and Accounts of Government sector having in depth knowledge of procurement Rules, Establishment Regulations and Government Policies.

The reply is based on lack of knowledge about the importance of Internal Audit and justification of improper functioning therefore not acceptable. For all the more reasons of sensitive and technical activities of FAB it is important to have a proper establishment of Internal Audit Wing and should conduct Internal Audit of all the matters and report for taking appropriate action directly to the Executive Director. No DAC meeting was convened by the PAO.

DAC in its meeting held on 21st January, 2015 directed the management to establish Internal Audit Wing and conduct the audit of all activities. The internal audit reports may be sent to the PAO and Audit.

Audit recommends that the Executive Director should take effective steps for establishment of Internal Audit Wing duly incorporating the technical peoples and proper Internal Audit Reports should be prepared for taking appropriate action and timely decisions.

No further progress was intimated till finalization of this Report.

(Based on PDP No.55)

MINISTRY OF DEFENCE PRODUCTION

CHAPTER-3

NATIONAL RADIO TELECOMMUNICATION CORPORATION (Pvt) Ltd

3. NATIONAL RADIO TELECOMMUNICATION CORPORATION (Pvt) Ltd

3.1 Introduction

National Radio Telecommunication Corporation (NRTC) was incorporated as a private limited company on 16th February, 1966 to cater to the needs of Army. NRTC is managed by a Board of Directors under the administrative control of Ministry of Defence Production. The corporation is registered under Companies Ordinance as Private Limited Company. Its accounts are audited by the Auditor General of Pakistan.

The main objectives of the Corporation include manufacturing and assembling all kinds of radio / wireless sets for Defence Services and also production of battery eliminators and distribution point boxes for PTCL and NTC.

The Corporation is managed by a Board of Directors headed by Secretary Ministry of Defence Production as its Chairperson to run the affairs of the corporation.

3.2 **Comments on Budget and Accounts**

Comments on the financial statements for the year ended June 30, 2014 are as under:

3.2.1 According to Rule 24 of Public Sector Companies Corporate Governance Rules, 2013, every public sector company shall publish and circulate a statement along with its Annual Report to set out the status of its compliance with these rules. The National Radio Telecommunication Corporation (NRTC) did not take any action to adopt these rules so far which is a violation of PSCC Governance Rules 2013.

No reply was furnished by the NRTC management.

3.2.2 Financial statements (Note-9) ending June 30, 2014 showed that a liability of Rs 50.871 million was booked as payable share to Colony Board in Financial Year 2013-14 whereas the corresponding total expense to the Cost of Sales for contribution on the account was Rs 15.774 million (Rs 10.569+5.206 million) only. No explanation regarding creating huge liabilities was given in the statements. It is held by audit that the payable liabilities were overstated and unjustly deferred to next year while expense understated.

No reply was furnished by the NRTC management.

3.2.3 Financial statements (Note-17) ending June 30, 2014 showed that an amount of Rs 1.864 million was shown as receivables from parent entity (MoDP) under current assets since last three years. The amounts reported under Current Assets are required to be recovered within the period of one year. Neither the reasons for long outstanding amount were given nor the receivables recovered resulting in overstatement of assets.

No reply was furnished by the NRTC management.

3.2.4 Financial statements (Note-8) ending June 30, 2014 showed that the classification of "Freehold Land" previously recognized as "Reserves" but was changed to "Government Grant". Due to this change in treatment, the

Equity of the company turned into long term liability which may create a negative impact on the financial statement. In case of any justifiable explanation for the change of treatment the historical data of reserves would be required to be recast accordingly as required in International Accounting Standards (IAS-8). NRTC did not change its Financial Statements according to the requirements of International Accounting Standards.

No reply was furnished by the NRTC management.

3.2.5 Financial statements (Note-12) ending June 30, 2014 showed that equipment costing Rs 9.941 million depreciated and written off against the Deferred Income instead of Cost of sales in violation of IAS 16. Further it resulted into understatement of expenses and overstatement of income.

No reply was furnished by the NRTC management.

3.3 Status of Compliance with PAC Directives

NRTC, Ministry of Defence Production

Following table shows the compliance status of PAC directives.

| S. No | Audit Year | Total Paras | Total Directives | Compliance | | %age |
|-------|------------|--|------------------|------------|--------------|------|
| | | | | Received | Not received | |
| 1 | 1988-89 | 3 | 3 | 0 | 3 | 00 |
| 2 | 1990-91 | 10 | 10 | 10 | 0 | 100 |
| 3 | 1992-93 | 10 | 10 | 10 | 0 | 100 |
| 4 | 1994-95 | No audit para was printed in Audit Report | | | | |
| 5 | 1996-97 | 10 | 2 | 1 | 1 | 50 |
| 6 | 1997-98 | 10 | 10 | 10 | 0 | 100 |
| 7 | 1999-00 | 9 | 9 | 4 | 5 | 44 |
| 8 | 2000-01 | 12 | 12 | 7 | 5 | 58 |
| 9 | 2001-02 | 8 | 8 | 8 | 0 | 100 |
| 10 | 2003-04 | 09 | 09 | 7 | 2 | 60 |
| 11 | 2004-05 | 13 | 13 | 12 | 2 | 92 |
| 12 | 2005-06 | 8 | 8 | 06 | 02 | 75 |
| 13 | 2006-07 | 05 | 05 | 04 | 01 | 80 |
| 14 | 2007-08 | 06 | 06 | 03 | 03 | 50 |
| 15 | 2008-09 | 4 | 4 | 3 | 1 | 75 |

AUDIT PARAS

3.4 Unlawful expenditure on procurement without tendering – Rs 4.011 million and non recovery of penalty Rs 88,160

According to Rule 12 of Public Procurement Rules 2004 states that procurements over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time.

NRTC management incurred an expenditure of Rs 4.953 million on purchase of various items without inviting competitive rates through open tenders during 2013-14. Further, in case of Sl.No.04 below the delivery was required to be completed within 90 days, upto 5th August, 2013. The contractor failed to supply the store within stipulated time but penalty of Rs 88,160 was not imposed in violation of the clause 18 of the purchase order. Detail is as under:

| S. No | Vr. / contract No. & date | Description | Name of Firm | Amount (Rs) |
|--------------|---------------------------|--|------------------------|------------------|
| 01 | 542/02.08.13 | Purchase of safety shoes 356 Nos @ Rs 1,800 | M/s Frash Security | 743,328 |
| 02 | 2420/31.12.13 | Printing of wall calendar, table calendar, diaries, executive diaries & planners | M/s Digital Fly | 475,000 |
| 03 | LP-2819A/2013 | Procurement of CCTV security surveillance system | M/s Spell Fujiya Intl. | 2,793,045 |
| TOTAL | | | | 4,011,373 |

The matter was reported in November 2014 and it was replied in December 2014 that procurement of safety shoes was made from the authorized distributor / stockiest. As regard printing of wall and table

calendar, various designing and printing firms were approached and after market survey and price comparison M/s Digital Fly Lahore was selected on the basis of lowest bid. NRTC mosque is adjacent to the factory therefore in order to hide NRTC setup in civil area, pre-requisites procurement procedures by involving open bidding are forgone. However, in order to have competitive rates quotations were called from the various reputable firms having vast experience in Defence organization. Exemption from the PAO in this respect has also been obtained.

The reply is misleading therefore not acceptable. NRTC misstated the facts as there was no propriety and exemption certificates available related to the procurement under observation.

DAC in its meeting held on 7th January, 2015 directed the management for verification of record by audit.

Audit recommends that the responsibility for granting the exemption on fake projections without any emergency and violation of PPRA Rules be fixed and disciplinary proceedings initiated against the officers responsible besides recovering liquidity charges from the suppliers or the persons responsible under intimation to audit.

No progress was intimated till finalization of this Report.

(Based on PDP No.238)

3.5 Less charging of General Sales Tax on supplies – Rs 2.909 million

According the Government of Pakistan Sales Tax Act 1990 Chapter-II, section 3 (1) substituted vide Finance Act 2013, the rate of General Sales Tax (GST) has been enhanced from 16% to 17% from July 2013.

NRTC management raised invoices in the light of Clause-5 of the contract agreement for 80% balance payment against supply of Land Mobile Radio Set along-with accessories including 17% GST. Subsequently, the invoices were revised by incorporating the GST @ 16% and furnished to

Headquarters, Civil Works Organization, Rawalpindi on 27th December, 2013 for payment. This resulted into less charging of GST from the client amounting to Rs 2.909 million as detailed below:

| S. No | Invoice No. & date | Amount of bill (Rs) | GST Due @ 17% | GST recovered @ 16% | Difference (Rs) |
|---|----------------------------------|---------------------|-------------------|---------------------|------------------|
| Contract No.DGSW/9122/Sigs/2012 & No.DGSW/9121/Sigs/2012 | | | | | |
| 01 | FN/CWO-1314/0013/ dt: 4.12.13 | 199,991,837 | 33,998,612 | 31,998,694 | 1,999,918 |
| 02 | FN/CWO-1314/0014 dt: 4.12.13 | 90,902,819 | 15,453,479 | 14,544,451 | 909,028 |
| TOTAL | | 290,894,656 | 49,452,091 | 46,543,145 | 2,908,946 |

The less charging of sales tax was reported in November 2014 and it was replied in December 2014 that NRTC raised bill including sales tax @ 17% claim against the supply of the goods for realization / release of payment. Headquarter CWO released the sanctioned amount of GST at the rate of 16%. However, on the advice of Audit, claim for difference 1% GST has been forwarded to the concerned authorities for early release of payment.

The reply is misleading as earlier the invoices were raised including 17% GST but subsequently, the same were revised without any reason. which showed undue favour and deliberate delay in recovery of the correct GST.

DAC in its meeting held on 7th January, 2015 directed the management to pursue the case with the concerned quarter for realization of difference of GST, its remittance to the Government treasury and verification by audit.

Audit recommends that due amount of the GST be recovered besides fixing the responsibility against those held responsible for charging less sales tax.

No further progress was intimated till finalization of this Report.

(Based on PDP No.246)

3.6 Loss due to non-receipt of exchange rate fluctuation charges – Rs 198.770 million

According to clause 20 of contract agreement No.11/ET/2009-10/Army, and contract agreement No.20/ET/2010-11/Army, exchange rate has been taken as 1 US\$ = Rs 88.00. However, any fluctuation in the rates of exchange at the time of opening of LCs and subsequent variation at the time of payment will be adjusted on production bank documents payable at actual. In case of increase in US dollar rate, the purchaser will make payment of the additional amount to the NRTC, on allocation of funds from GHQ. Amount saved by NRTC (if any) due to reduction in US dollar rates will be deposited in to the Government Treasury through TR.

The contract agreements were signed between NRTC and DG (DP) on 30.06.2010 for supply of 3000 Soft Defined Radio Sets (SDR) and development and local production of 9651 / 9661 Series VH/UHF software. The payment of Foreign Exchange Component (FEC) of US\$ 9.490 million and US\$ 8.306 million was made by DG (DP) on 17.09.2012 @ Rs 93.8 and on 11.06.2012 @ Rs 87.997 per US\$ respectively. However, NRTC made payment to M/s Aselsan Turkey during 16.07.12 to 02.08.13 @ 94.95 to 102.5 and 08.01.13 to 27.01.14 @ 102.95 to 106.56 per US\$. This resulted in a loss of Rs 198.770 million to NRTC due to exchange rate fluctuation as detailed below:

| Amount Received in NRTC | | | Payment made by NRTC | | |
|--|-------------------------|--------------------|----------------------|-------------------------|--------------------|
| US\$ | Con- version rate | Total Pak (Rs) | US\$ | Con- version rate | Total Pak (Rs) |
| Contract No.11/ET/2009-10/Army dated 30.06.2010 | | | | | |
| 9,489,652 | 93.8 | 890,129,358 | 505,815 | 94.95 | 48,027,134 |
| | | | 1,208,827 | 97.65 | 118,041,956 |
| | | | 7,775,010 | 102.5 | 796,938,525 |
| TOTAL | | 890,129,358 | 9,489,652 | | 963,007,615 |
| FLUCTUATION LOSS | | | 72,878,257 | | |

| Contract No.20/ET/2010-11/Army dated 30.06.2010 & 11.06.2012 | | | | | |
|---|--------|--------------------|------------------|--------|--------------------|
| | | | 4,032,648 | 102.95 | 415,161,111 |
| 8,306,172 | 87.997 | 730,918,217 | 3,780,684 | 102.95 | 389,221,418 |
| | | | 492,840 | 106.56 | 52,517,030 |
| | | | 8,306,172 | | 856,899,559 |
| TOTAL | | 730,918,217 | 8,306,172 | | 856,899,559 |
| FLUCTUATION LOSS | | | | | 125,981,342 |
| G/Total (72,878,257 + 125,981,342) | | | | | 198,769,599 |

The matter was reported in November 2014 and it was replied in December 2014 that efforts for early realization of the claimed amount had been made at the appropriate level. Payments are mainly delayed due to non-availability of funds.

The reply was not tenable because the NRTC management failed to recover the amount due as per contract agreement despite lapse of considerable time. Similar loss of Rs 713.722 million reported in the previous audit report was still not recovered.

DAC in its meeting held on 7th January, 2015 directed the management for early realization of the amount as per contract agreement and get it verified from audit.

Audit recommends that the exchange rate fluctuation charges may be recovered besides fixing responsibility against those held responsible for not recovering the amounts as per contract agreement. In the future contracts the provision should be made for exchange rate fluctuation fixing the time limit for payment.

No further progress was intimated till finalization of this Report.

(Based on PDP No.250)

3.7 Non submission of bill and recovery of freight and insurance charges – Rs 172.433 million

According to clause 16(b) of the contract agreement No.11/ET/2009-10/Army, allied charges (freight & insurance) were to be paid by the client to NRTC on the submission of bills duly supported with documents i.e. delivery evidence, inspection note and CRV.

Clause 8.2 of the contract agreement shipping charges shall be paid by the purchaser as actual on presentation of bill by the supplier.

Rule 43 of PPRA Rules 2004, further states that all procuring agencies shall make prompt payments to suppliers and contractors against their invoices or running bills within the time given in the conditions of the contract, which shall not exceed thirty (30) days.

NRTC management concluded a contract agreement with DG (DP) for supply of 3000 SDR Sets on 30.06.2010. NRTC made payments of freight and insurance charges to the forwarding agent amounting to Rs 172.433 million during 2012-13 and 2013-14 but failed to recover the same from the client. The detail of receivables were sent to MoDP on 26th March, 2011 in the light of minutes of in house departmental meeting but the payment was not received and NRTC did not submit the claim to the purchaser on account of freight charges in two contracts in violation of the above rules.

The matter was reported in November 2014 and it was replied in December 2014 that efforts for early realization of the claimed amount had been made at the appropriate level. Payments are mainly delayed due to non-availability / allocation of funds by GHQ / Military Finance. The bill on account of freight charges amounting to Rs 1.517 million against the contract No DGSW/9104/2011 dated 22.10.2011 has been submitted for payment. However, working of freight against contract No. DGSW/9102/2011 dated 22.10.2011 is under process and will be submitted shortly.

The reply is not tenable because NRTC did not raise bill in case of one contract against DG (DP) in violation of the contract agreement whereas admitted the non-recovery of Rs 172.433 million from DG (DP) on account of freight and insurance charges in 02 other contracts.

DAC in its meeting held on 7th January, 2015 directed the management to take up the case with concerned quarter for early realization of the amount as per contract agreement and get it verified from audit.

Audit recommends that responsibility for not raising the bills timely and non recovery of amount as per contract agreement against DG (DP) in violation of the contract agreement should be fixed against the officers / officials responsible under intimation to Audit.

No further progress was intimated till finalization of this Report.

(Based on PDP No.251)

3.8 Non recovery on account of 50% balance amount - Rs 827.678 million

According to clause 16 (MS-3) of the Contract Agreement, 50% balance payment will be made on delivery of stores. Rule 26 of GFR Vol-I further states that it is the duty of the departmental controlling officers to see that all sums due are regularly and promptly assessed, realized and duly credited in the accounts.

NRTC management raised a bill to Director General, Munitions Production, MoDP, on 19th February, 2014 for Rs 827.678 million on account of 50% balance amount against the delivered stores. The management did not recover the amount despite lapse of considerable time. The record did not show any efforts for recovery of due amount which resulted in reduction of revenue.

The matter was reported in November 2014 and it was replied in December 2014 that NRTC prepared bill against partial delivery of store and

forwarded to DGMP. Due to lengthy process involved in allocation of funds by GHQ / Military Finance, DGMP returned the bill and advised to submit after complete delivery of the contracted store. Bill for balance amount will be forwarded for allocation of funds / payment to NRTC on realization / release of payment.

The reply was not tenable because no efforts were made to recover the amount. The amount against the stores delivered be recovered and record got verified from audit.

DAC in its meeting held on 7th January, 2015 directed the management for recovery of outstanding dues at the earliest and its verification by audit.

Audit recommends that outstanding amount due should be recovered at the earliest and the delay be investigated for fixing responsibility against those held responsible for not taking measures to realize the amount under intimation to audit.

No further progress was intimated till finalization of this Report.

(Based on PDP No.252)

3.9 Non finalization of long outstanding payables – Rs 36.323 million

According to Rule 43 Of PPRs 2004, all procuring agencies shall make prompt payments to suppliers and contractors against their invoices or running bills within the time given in the conditions of the contract, which shall not exceed thirty (30) days.

Chairman Colony Board (M/s Telephone Industries of Pakistan) raised various invoices of Rs 36.323 million on account of Colony Board share for last several years but NRTC management did not make payments of its share. Non-payment of payables of Rs 36.323 million has resulted in accumulation of liabilities which may erode future cash flows of NRTC.

The non settlement of payables to TIP was reported in November 2014 and it was replied in December 2014 that NRTC was not availing hospital facilities from colony Board since year 2000, therefore claims against expenses related to the hospital and other irrelevant claims were not payable by NRTC. NRTC requested MD TIP being the Chairman of T&T Colony Board to convene Colony Board meeting to resolve pending issues. The outstanding amount is pending due to non-response of TIP management.

The reply was not tenable because NRTC failed to finalize and settle the long outstanding payables with TIP management.

DAC in its meeting held on 7th January, 2015 directed the management that the case for finalization of the payables / receivables with the Colony Board be settled and report submitted.

Audit recommends that the case for finalization of the payables as demanded by the Colony Board should be settled to avoid any increase in liability in future.

No further progress was intimated till finalization of this Report.

(Based on PDP No.249)

3.10 Violation of State Bank Laws to avoid bank guarantee for importing items and 100% advance payment - Rs 39.942 million

According to the State Bank of Pakistan, Foreign Exchange Circular No.01 dated 30.01.2010, advance payments against letter of credit upto 100% of the freight on board or cost and freight value of the imported goods is allowed. SBP FE Circular No.03 dated 29.04.2008 allows advance payment facility to importers, upto US\$ 10,000 or equivalent thereof in other foreign currencies, per invoice for eligible items without requirement of Letter of Credit or bank guarantee.

Contrary to the above regulations, NRTC imported various parts and components for manufacturing of radio sets from foreign suppliers valuing US\$ 2.643 million and Euro 37,357 equivalent to Pak Rs 39.942 million by issuing split purchase orders to keep the amount below the prescribed limit of US\$ 10,000 as fixed by State Bank for Telegraphic Transfer (TT). The 100% advance payment was made avoiding bank guarantees and requirement of LC opening in violation of the above rules.

The matter was reported in November 2014 and it was replied in December 2014 that NRTC being an importer and manufacturing unit is facing great difficulties to procure the parts / components from the foreign vendors who are reluctant to supply the raw material and parts / components to Pakistan especially in the prevailing country situations. Certain firms did not agree to deal in LC and demand 100% advance payment via Credit card or T.T. Hectic efforts were made to convince these suppliers to accept LC but they did not agree even with 100% advance payment through LC.

The reply was not tenable as NRTC admitted the violation of State Bank regulation and continued to avoid opening of LCs placing government money at risk due to 100% advance payment to vendors.

DAC in its meeting held on 7th January, 2015 directed the management to take up the case with the State Bank through National Bank for regularization of previous expenditure and any exemption in rules for future.

Audit recommends that the responsibility should be fixed and proceeded against for violation of State Bank rules and 100% advance payment in foreign currency without bank guarantee. The illegal practice of 100% advance payment be discontinued in future under intimation to audit.

No progress was intimated till finalization of this Report.

(Based on PDP No.244)

3.11 Non disposal of assets valuing Rs 9.941 million

According to International Accounting Standards (IAS) 36, assets should not be reported over and above its recoverable amount. If its carrying amount exceeds the amount to be recovered through use or sale of the asset, the asset is treated as impaired and the standard requires recognizing an impairment loss.

Assets having value of Rs 9.941 million are appearing in the balance sheet since 1990-91 without any impairment. Furthermore, the depreciation expense was also not charged to the equipment which deprived the corporation from the tax benefit. Detail of the assets is as under:

| S.No | Description | Amount (Rs) |
|--------------|------------------------|------------------|
| 01 | Spot Welding Machine | 125,319 |
| 02 | Test Jigs for LMT | 219,462 |
| 03 | Test equipment for LMT | 362,567 |
| 04 | Electric equipment | 14,718 |
| 05 | Logic analysis | 80,185 |
| 06 | Toggle switch | 9,403 |
| 07 | Jigs boring machine | 361,194 |
| 08 | Hydraulic press break | 243,617 |
| 09 | Equipment RT-4600 | 8,524,548 |
| TOTAL | | 9,941,013 |

Company needs to check the utilization of assets and based on that, either impairment may be charged or these may be written off from the books in accordance with the provisions of International Accounting standards.

The matter was reported in November 2014 and it was replied in December 2014 that in order to check the utilization / impairment of the assets observed by audit a technical committee is being formulated by the management. The committee will formulate the recommendation to decide

about the utilization and write-off of these assets. As regards depreciation it is clarified that on the assets procured through grants, depreciation for the purpose of tax benefit is not allowed as per International Accounting Standards.

The reply is misleading therefore not acceptable. The assets have taken into account since 1990-91 by the management and replied that committee is being formulated. This showed weak internal controls.

DAC in its meeting held on 7th January, 2015 directed the management to finalize the case and submit report.

Audit recommends that the responsibility should be fixed besides earlier formulation of the committee under intimation to audit.

No progress was intimated till finalization of this Report.

(Based on PDP No.235)

3.12 Unlawful change of bid amount for work award - Rs 1.627 million

According to Rule 31 (1) and (2) of Public Procurement Rules (PPRs) 2004, no bidder shall be allowed to alter or modify his bid after the bids have been opened. However, the procuring agency may seek and accept clarifications to the bid that do not change the substance of the bid.

NRTC management awarded to M/s Astro Power System the work of supply and erection of mechanical shed and repair / renovation of NRTC Production Halls (3xfloors) in the light of General Headquarter E-in-C Branch DP&W Directorate letter No.2001/MDP&W/E-2 dated 21st March, 2012. The bid of M/s Astro Power System vide their No.APS/NRTC/215/MA-2012/F dated 7th June, 2012 for Rs 82.349 million for the subject work was evaluated and accepted by the Tender Opening Committee.

The contractor accepted the work order but no date was recorded on the acceptance letter. The contractor requested for issuance of revised work

order mentioning some clerical mistake in the earlier offer without indicating any number and date on the request which create doubts about its authenticity. The request of the contractor was accepted allowing him to submit revise bid of Rs 83.977 million which enhanced the bid amount by Rs 1.627 million. As a result the cost of work was increased unjustly and unauthorizedly.

It was further noted NRTC management violated the PPRA Rules and other requirements as no documentation regarding tenders, evaluation report, comparative statement and the rates offered by other bidders were available in the record.

The matter was reported in November 2014 and it was replied in December 2014 that there was a totaling mistake in the sum of the total offer while the detailed break-up values are same as per original purchase order and sum of item wise value was less taken in the total. M/s Astro Power System also regretted and requested for correction of the order value. On the request of the supplier the order was amended.

The reply was misleading and not acceptable because the documentation was left without date purposely and amount of bid changed later through connivance after award of work. The Evaluation Committee also did not ensure the above information to confirm the authenticity.

DAC in its meeting held on 7th January, 2015 directed the management to conduct facts finding inquiry and submit the report.

Audit recommends that matter should be investigated for facts finding and fixation of the responsibility under intimation to Audit.

No progress was intimated till finalization of this Report.

(Based on PDP No.237)

3.13 **Unlawful expenditure on purchase of vehicle – Rs 3.288 million**

According to para 87(1) of Memorandum and Articles of Association the business of the company shall be managed by the Director, who may exercise all the powers of the company except such as are by the Ordinance or by these articles required to be exercised by the company in general meeting, subject nevertheless to the regulations of these Articles and the provision of the Ordinance and the exercise of such powers shall also be subject to the control and regulation of any general meeting, but no regulations made by the company in general meeting shall invalidate any prior act of the Directors which have been valid if such regulation had not been made. Para 87 (2) *ibid* further states that Directors may do all acts for purchase or otherwise acquire for the company any property, rights or privileges, which the company is authorized to acquire at such price and generally on such terms and conditions as they think fit.

NRTC management issued a purchase order on 23rd July, 2013 for purchase of Toyota Hilux 4x4 Double Cabin Pickup. The case was submitted by the Managing Director NRTC directly to the Chairman BoDs i.e Secretary MoDP instead to presented it in the Board Meeting for obtaining approval of the all twelve (12) BoDs members in violation of the above. Hence, incurrence of expenditure of Rs 3.288 million on purchase of vehicle held irregular.

The unlawful expenditure was reported in November 2014 and it was replied in December 2014 that vehicle Toyota Hilux 4 x 4 Double Cabin Pickup was required for field test and trial of the NRTC Products. In order to meet the contractual obligation and field test and trials of the equipment of R&D, approval from the Chairman NRTC Board of Director was obtained prior to the purchase, thereafter BODs approval was also obtained in the 75th Meeting of BODs.

The reply was not tenable because the approval of the Board of Directors was not obtained for purchase of vehicle. The approval of the

only Chairman BoDs by passing the other members is the violation of the rules.

DAC in its meeting held on 7th January, 2015 directed the management to get the expenditure regularized and get it approved from the BoDs as well and verified from audit.

Audit recommends for immediate compliance of the DAC directives.

No progress was intimated till finalization of this Report.

(Based on PDP No.234)

3.14 Less credit of profit on investment – Rs 1.111 million

According to Habib Bank Limited (HBL) letter No GM/282 dated 25th March, 2013, the profit rates on investment of funds for 12 months was fixed as 9.65% per annum and there will be no premature encashment penalty.

Furthermore, according to Rule 26 of GFR Vol-I, it is the duty of the departmental controlling officers to see that all sums due are regularly and promptly assessed, realized and duly credited in the accounts.

NRTC management invested an amount of Rs 535.500 million @ 9.65% per annum for one year. The investments register and bank statement showed that the due profit was not credited by the Bank which resulted into less credit of Rs 1.111 million.

The issue of less credit of profit was reported in November 2014 and it was replied in December 2014 that less credit of profit was due to charging of penalty on pre-mature encashment of funds by the Bank despite of condition offered at the time of offering the profit rates by HBL that no pre-mature encashment penalty will be charged. The matter has been taken up with the concerned bank to credit the balance due profit as agreed /

committed vide their offer letter. The response of the bank / credit particulars will be provided to Audit in due course of time.

The reply is misleading therefore not acceptable. There was no clause of premature penalty in the offer letter of HBL. Record did not show any efforts made by the management for recovery of the due profit which indicate weak financial management.

DAC in its meeting held on 7th January, 2015 directed the management to pursue the case with the bank vigorously for early realization of the amount and get it verified from audit.

Audit recommends that the matter may be taken up at appropriate level by the NRTC management according to the provisions of the contract to resolve the issue with bank authorities.

No further progress was intimated till finalization of this Report.

(Based on PDP No.245)

**MINISTRY OF INFORMATION
TECHNOLOGY (IT & TELECOM DIVISION)**

CHAPTER-4

**INFORMATION COMMUNICATION
TECHNOLOGY
RESEARCH & DEVELOPMENT FUND**

4. INFORMATION COMMUNICATION TECHNOLOGY RESEARCH & DEVELOPMENT FUND AND COMPANY (ICT R&D)

4.1 Introduction

Federal Government established a Fund to be called the Research and Development Fund under section 33 C of Pakistan Telecommunication (Re-organization) amended Act, 2006. The Research and Development Fund shall be under the control of the Federal Government and the balance to the credit of the R&D Fund shall not lapse at the end of the financial year. The Research and Development Fund shall consist of:-

- Grants made by the Federal Government.
- Prescribed contribution by licensees.
- Loans obtained from the Federal Government.
- Grants and endowments received from other agencies.

The Fund shall be utilized exclusively for prescribed Research and Development activities in the field related to Information & Communication Technology and other expenditure incurred by the Federal Government in managing Research and Development Fund. The Federal Government may co-ordinate with relevant entities to ensure timely utilization and release of sums in accordance with the criteria as may be prescribed.

Federal Government in pursuance of sub-section (2) of section 57 of Pakistan Telecommunication (Re-organization) amended Act, 2006 approved the Research and Development Fund Rules, 2006. In terms of Rule (4) *ibid*, MoIT established a non-profit company limited by guarantee for implementation of research and development projects in the information and communication technology sector.

The company is managed by a Board of Directors headed by Minister of IT as its Chairperson to run the affairs of the company.

4.2 COMMENTS ON BUDGET AND ACCOUNTS

ICT R&D management did not provide the annual audited accounts till the finalization of the report despite continuous pursuance by audit. Hence, no comments on accounts could be offered.

4.3 STATUS OF COMPLIANCE WITH PAC DIRECTIVES

The Audit of the Research & Development (R&D) Fund was assigned to PT&T Audit first time in February 2011. No audit report has yet been discussed in PAC.

AUDIT PARAS

4.4 Outstanding receivables from PTA and telecom operators - Rs 1,264.841 million

According to section 4.1 of general conditions of license the licensee shall contribute in Research and Development (R&D) Fund and Universal Service Fund (USF) an amount @ of 1.5% R&D Fund and @ 0.5% USF of its annual gross revenue.

Section 4.4.1 further stipulates that the licensee shall make this contribution within 120 days of the end of financial year.

Rule 26 of GFR Vol-I further states that it is the duty of the departmental controlling officer to see that all sums due to government are regularly and promptly accessed, realized and duly credited in the Public Account.

The Ministry of Information Technology (MoIT) failed to recover an amount of Rs 1,264.840 million on account of R&D contribution from PTA and telecom operators at the close of June 30, 2013 as detailed below:

| S.No | Description | Amount as on 30.06.2012 (Rs) | Amount as on 30.06.2013 (Rs) | Total Receivables (Rs) |
|--------------|-------------|------------------------------------|------------------------------------|------------------------------|
| 01 | PTA | 898,548,668 | 1,181,719,233 | 283,170,565 |
| 02 | Operators | 3,895,838,358 | 4,877,508,593 | 981,670,235 |
| TOTAL | | | | 1,264,840,800 |

The matter was pointed out in November 2014 and it was replied in December 2014 that as per R&D Rules, 2006 PTA is mandated to monitor and enforce the obligations of the relevant licensees to make the contributions in timely manners. Ministry of Information Technology (MoIT) had taken ultimate efforts to realize the amount from PTA and operators and had directed PTA to refrain from receiving contributions. The operators had also been directed to make direct payments to MoIT.

The reply was misleading therefore not acceptable as no efforts were on record to recover the outstanding dues after reconciliation with the PTA.

DAC in its meeting held on 18th December, 2014 directed the management to recover the outstanding receivables from PTA and telecom operators and record be verified from audit.

Audit recommends that the matter be taken up with PTA for recovery of outstanding receivables and the telecom operators be directed to deposit all the outstanding R&D contributions against them.

No further progress was reported till finalization of this Report.

(Based on PDP No.214)

4.5 Diversion of R&D Fund and improper maintenance of its accounts – Rs 6,760.742 million

According to Section 33 C (2) of Pakistan Telecommunication (Re-organization) Act, 1996 (amended 2006), the Federal Government may by notification in the official Gazette, establish a Fund to be called the Research & Development Fund. The R&D Fund shall be under the control of Federal Government and therein shall be credited any sums of money received from Federal Government; prescribed contribution by the licensees; loans obtained from the Federal Government; and grants and endowments received from other agencies. The fund shall be utilized exclusively for prescribed Research and Development activities in the field related to information and communication technology and other expenditure incurred by the Federal Government in managing Research and Development Fund.

Contrary to the above, MoIT amended R&D Rules, 2006 vide No.1-101/2004-Dir (legal)-I dated 29th June, 2013, whereby it was decided to keep the R&D money in the Federal Consolidated Fund (FCF) instead of Public Account. Subsequently, Finance Division vide its letter F.No.1(2)/DS/BR-ii dated 2nd July,2013 withdrew Rs 5,622.000 million

from the R&D Fund (Public Account) and deposited it into FCF. The amount was not spent for the purpose for which it was envisaged in the Act. The amendment was made without considering the provisions.

Subsequently, MoIT decided to deposit the R&D Fund and all its contributions into a Public Account No.G-12419 (non-lapsable). An amount of Rs 1,138.742 million was deposited in this account in contravention of its own notification of 29th June, 2013 without any amendment in the Rules.

The matter was pointed out in November 2014 and it was replied in December 2014 that R&D Fund was transferred to FCF in pursuance of decision of the committee constituted by ECC through amendments in R&D Rules, 2006. Subsequently the Finance Division authorized to open non-lapsable Personal Ledger Account (PLA) for maintenance of Research and Development Fund.

The reply was not tenable as the amendment in the Rules was made without keeping in view the provisions of Pakistan Telecommunication (Re-organization) Act, 1996 (Amended 2006) which clearly mentions that R&D Fund is part of Public Account which is non-lapsable. Therefore, the amount could have only been made available for the R&D activities. Moreover, the accounting procedure for maintenance of R&D Fund needs to be streamlined in accordance with the provisions of the Act.

DAC in its meeting held on 18th December, 2014 directed the management to streamline the accounting procedure in the light of provision of Pakistan Telecommunication (Re-organization) amended Act, 2006 as amended and record may be got verified from audit.

Audit recommends that the policy regarding maintenance of Research and Development Fund need to be streamlined in the light of provision of Pakistan Telecom Reorganization (Amended) Act, 1996.

No further progress was reported till finalization of this Report.

(Based on PDP No.215)

4.6 **Excess expenditure on rent of office building - Rs 13.401 million**

According to Ministry of Housing and Works O.M No.2(1)/2000-Policy dated 21.09.2006 and 14.04.2008 the procedure and rates for hiring commercial buildings for offices has been described as under:

| Floor | 21.09.2006 | 14.04.2008 |
|---------------------|-------------------|-------------------|
| Basement | @ Rs 7/Sq. ft. | @ Rs 25/Sq. ft. |
| Other floors | @ Rs 14/Sq. ft. | @ Rs 40/Sq. ft. |

From 14.04.2008, it has been allowed to pay 25% extra rent for high rise centrally air conditioned buildings. Para 2(IV) of the O.M provides that “cases of buildings proposed to be hired beyond prescribed enhanced rates will be referred to Finance Division (Regulations Wing) through FA’s organization” after completion of procedural formalities as per Finance Division O.M No.8 (69) R-14/83-2001-452 dated 18.10.2001.

The ICT R&D Company’s management hired 6th & 7th floors in HBL Tower, Blue Area Islamabad covering an area of 6200 sq. ft each @ Rs 121/sq. ft. for 6th and Rs 110/Sq.ft for 7th floor. An amount of Rs 23.631 million was paid as rent which was in excess of the admissible rent of Rs 10.230 million. Thus an amount of Rs 13.401 million was paid in excess of admissible limits as calculated below:

| Floor | Period | Rent Paid | Rent admissible | Excess (Rs) |
|-----------------|-----------------------------|------------------------------|----------------------------|--------------------|
| | | A | B | A-B |
| 6 th | 17.02.2013 to 30.06.2014 | 6200x121x16.5 =12,378,300 | 6200x50x16.5 =5,115,500 | 7,263,300 |
| 7 th | 17.02.2013 to 30.06.2014 | 6200x110x16.5 =11,253,000 | 6200x50x16.5 =5,115,500 | 6,138,000 |
| Total | | 23,631,300 | 10,230,000 | 13,401,300 |

The matter was reported to the management in November 2014 and it was replied in December 2014 that the expenditure was incurred with the approval of ICT R&D Company’s Board which is the competent forum.

The reply was not acceptable as ICT R&D Company is owned and controlled by Federal Government and funds provided are Public Funds therefore, the rates of rent of the office premises were required to be got approved in the light of government directives.

In DAC meeting held on 18th December, 2014, the PAO settled the para. However, audit and DFA (IT) did not agree and it was finally decided to place the para before PAC for decision.

Audit recommends that excess payment be recovered from the persons held responsible under intimation to Audit.

No further progress was reported till finalization of this Report.

(Based on PDP No.216)

4.7 **Irregular expenditure on appointment of staff during ban period - Rs 5.01 million**

According to Rule-9 of Research and Development Fund Rules, 2006 the company may with the approval of Federal Government, create posts and appoint officers, employees, experts, consultants and advisers. The Federal Government imposed an immediate ban on all recruitments in Federal Ministries / Divisions / Autonomous Bodies / Corporations vide Establishment Division's OM No. F.No.4/1/93-R-I, dated 20.06.2013.

In violation of the above, ICT R&D Company management made appointments during the ban period and paid an amount of Rs 5.010 million to these employees on account of pay & allowances during 2013-14 as detailed below.

| S.No | Designation | Date of Appointment | Rate P.M | Period | Amount (Rs) |
|------|------------------------|---------------------|----------|----------------------|-------------|
| 01 | Dy. Manager F&R | 09.09.2013 | 80,000 | 09.09.13 to 30.06.14 | 800,000 |
| 02 | Dy. Manager Monitoring | 02.10.2013 | 77,000 | 02.10.13 to 30.06.14 | 693,000 |

| | | | | | |
|--------------|-----------------------|------------|---------|----------------------|------------------|
| 03 | Assistant Manager (M) | 02.10.2013 | 58,500 | 02.10.13 to 30.06.14 | 526,500 |
| 04 | G.M Monitoring | 02.10.2013 | 331,911 | 02.10.13 to 30.06.14 | 2,987,199 |
| TOTAL | | | | | 5,009,699 |

The matter was reported in November 2014 and it was replied in December 2014 that the expenditure was incurred with the approval of Board of Directors which is competent forum in this regard.

The reply was misleading hence not acceptable. As per R&D Fund Rules, 2006 the prior approval of the Federal Government was necessary before recruitment which was not obtained.

In DAC meeting held on 18th December, 2014, the PAO settled the para. However, audit and DFA (IT) did not agree and it was finally decided to place the para before PAC for decision.

Audit recommends that the responsibility be fixed for non compliance of directives of Federal Government and Research and Development Fund Rules 2006.

No further progress was reported till finalization of this Report.

(Based on PDP No.217)

4.8 **Unlawful expenditure on procurement without open tendering - Rs 3.578 million**

According to Rule-9 of Public Procurement Rules-2004, a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly. Rule 42 *ibid* requires that the procuring agencies shall engage in open competitive bidding if the cost of the object to be procured is more than Rupees one hundred thousand. Further, Para 5.5.7 of operational manual of ICT R&D Company stipulates that for procurements above Rs 300,000 and further enhanced to Rs 500,000 in 21st BOD meeting, an open tender must be called.

In violation of the above, ICTR&D Company incurred an expenditure of Rs 3.578 million during financial years 2012-13 & 2013-14 on procurement of internet services from M/s Nayatel (Pvt), Ltd and accounting software without inviting open tenders due to which the company deprived off from the competitive rates.

The unlawful expenditure was reported in November 2014 and it was replied in December 2014 that National ICTR&D Company ensures transparency in all its operations. The services of enhancement in bandwidth were taken from Nayatel (Pvt.) Ltd upon the instructions of CEO of the company.

The management admitted the irregularity in its reply. The expenditure was incurred in violation of the PPRA Rules and its own operational manual.

DAC in its meeting held on 18th December, 2014 directed the management to get the expenditure regularized from competent forum and record be got verified from audit.

Audit recommends that matter be investigated and responsibility be fixed for not observing the Public Procurement Rules, 2004.

No further progress was reported till finalization of this Report.

(Based on PDP No.218 & 219)

4.9 Non preparation of annual reports of ICT R&D Company

According to clause 8.4.1 of R&D operations manual's the Publication Department of ICT R&D Company shall prepare an Annual Report of the Company's activities over the previous twelve months at the end of each financial year.

In violation of above rules, Annual Report of ICTR&D Company was not prepared and published since the inception of the company due to which the stakeholder remained unaware of R&D activities.

The matter was pointed out in November 2014 and it was replied in December 2014 that draft Annual Reports for the year 2006-08 and 2009-10 were prepared by Publication Department but were not presented to the Board.

The reply was not tenable as no Annual Report was prepared by the company since its inception.

DAC in its meeting held on 18th December, 2014 directed the management to inquire the matter regarding non-preparation of Annual Reports for such a long period besides fixing the responsibility.

Audit recommends that the matter be investigated to fix the responsibility for non preparation of Annual Reports besides preparation of Annual Report be prepared and submitted to the Board for its approval.

No further progress was reported till finalization of this Report.

(Based on PDP No.230)

4.10 Recoverable amount of due share of ICT R&D Company from Finance Division - Rs 74.13 million

According to Finance Division's letter No.Dy.1065/S/FS/2012 dated 03.09.2012 and Prime Minister's directive conveyed by the Principal Secretary vide No.2811/PSPM/2011 dated 25.09.2012 the Funds required to complete the ongoing programme of scholarship for the Talented Students of Balochistan shall be provided in the ratio of 2:3 by Finance Division and Ministry of Information Technology respectively.

In violation of the above, National ICTR&D Fund Company paid / contributed an amount of Rs 74.130 million to the Prime Minister's Project of Scholarship programme for Talented Students of Balochistan in excess of its due share. The excess payment of due share requires to be recovered from Ministry of Finance. Detail is as under:

(Rs in Million)

| Batch No. | Total Contribution By MoIT (ICT/R&D Co) | Share of MoIT (ICT/R&D Co) | Share of Ministry of Finance | Contribution by MoF | Recoverable From MoF |
|------------|---|----------------------------|------------------------------|---------------------|----------------------|
| (I,II&III) | 221.80 | 147.67 | 98.45 | (24.32) | 74.13 |

The matter was pointed out in November 2014 and it was replied in December 2014 that the company was following the directions of Board in disbursement of funds for the programme.

The reply was not tenable because the Board can exercise its powers within a set frame work of Rules / Regulations and Instructions. The amount paid over and above its due share be recovered from Finance Division.

DAC in its meeting held on 18th December, 2014 directed the management to recover the amount paid in excess of its due share and record be got verified from audit.

Audit recommends that the matter be taken up with the Ministry of Finance and outstanding amount be recovered within 02 months under intimation to Audit.

No further progress was reported till finalization of this Report.

(Based on PDP No.223)

4.11 Non registration and commercialization of technical R&D Projects - Rs 390.249 million

According to Rule 5(2) (m) of R&D Fund Rules, 2006 the Board shall maintain commercial orientation for the company and actively explore, pursue and exploit commercial opportunities arising out of the research and development projects.

Rule 8(1) *ibid* states that all Intellectual Property Rights (IPRs) in, arising out of or capable of legal recognition in respect of projects implemented by the company shall vest absolutely in the company on the basis of the projects.

The ICTR&D Company allocated Technical R&D Projects to Principal Investigators (PIs) and PIOs who carried out and completed these Projects during the Financial Year(s) 2012-14 at a cost of Rs 390.250 million. The Board as well as Management of ICTR&D Company did not devise concrete and objective policy towards the commercialization of these R&D Projects and registration of their IPRs.

The matter was pointed out in November 2014 and it was replied in December 2014 that the company has taken excursive of formulating IPR policy in consultation with external experts to be presented to the Board and commercialization will be carried out when it becomes feasible for different projects.

The reply was not tenable as no policy on IPRs and commercialization was devised and evaluation / assessment was also not carried out in respect of the Technical R&D Projects capable for commercialization and registration of IPRs.

DAC in its meeting held on 18th December, 2014 directed the management to finalize the policy regarding registration of IPRs and commercialization of Technical R&D projects, get it approved from Board and actions on all the completed projects in the light of approved policy be taken and compliance be got verified from audit.

Audit recommends that the issue of commercialization and registration of IPRs of all the completed Technical R&D projects be resolved keeping in view the financial interest of the ICTR&D Company and record got verified from audit.

No further progress was reported till finalization of this Report.

(Based on PDP No.226)

4.12 Irregular expenditure on exhibition at Punjab Youth Festival - Rs 6.025 million

According to Section-33D(2) of Pakistan Telecommunication (Re-Organization) Act, 1996 (amended 2006), the Fund shall be utilized exclusively for prescribed research and development activities in the Field related to Information and Communication Technology.

The National ICTR&D Fund Company incurred an amount of Rs 6.025 million for participation in Punjab Youth Festival under the subject of "Exhibition and Competition of ICT Innovations and Student Projects at Punjab Youth Festival 2014". There was no detailed plan, activities, projects, participants and arrangements for such huge exhibition on record. The expenditure was incurred by National ICTR&D Fund Company on the hall rent, cost of stalls, boarding and lodging of participants, transportation cost and cost of food for the participants of Punjab Youth Festival against its mandate as per Pakistan Telecommunication (Re-organization) amended Act, 2006 and in contravention of PPRs. Detail of expenditure is given as under:

| Paid To | Detail of Expenditure | Amount (Rs) |
|---------------------------|--------------------------------|--------------------|
| Staff of ICT R&D Co | Honorarium | 395,000 |
| M/S Expo Lahore (Pvt) Ltd | Partial payment of arrangement | 5,630,000 |
| | TOTAL | 6,025,000 |

matter was pointed out in November 2014 and it was replied in December 2014 that the exhibition falls within the Research and Development activities and is in accordance with the policy framework, vision of the company and objectives of Board. In total 42 universities participated from all over Pakistan and more than 100 projects were displayed in exhibition to stir the Research and Development activities.

The reply was not tenable as the expenditure was incurred on boarding, lodging and transportation of participants are not the Research and Development Activities. Further, the expenditure was incurred without observing the Public Procurement Rules.

In DAC meeting held on 18th December, 2014, the PAO settled the para. However audit and DFA (IT) did not agree and it was finally decided to place the para before PAC for decision.

Audit recommends that matter be investigated as the expenditure was incurred on boarding, lodging and transportation of participants of festival which was not within the scope and purpose of Research and Development as provided in the Pakistan Telecommunication Reorganization Act, 1996 and there were no such detailed projects on record with ICT R&D Company.

No further progress was reported till finalization of this Report.

(Based on PDP No220)

4.13 Irregular expenditure on Management Capacity Building Programme for telecom operators - Rs 7.605 million

According to Section-33D(2) of Pakistan Telecommunication (Re-Organization) Act, 1996 (amended 2006) the Fund shall be utilized exclusively for prescribed research and development activities in the Field related to Information and Communication Technology.

It was observed that an amount of Rs 7.605 million was incurred in two phases for training of staff of Telecom Operators in violation of the above. The training programmes included the trades of management, marketing, finance which were not within the scope of ICT and R&D as provided in Telecommunication (Re-organization) Act, 2006.

The matter was pointed out in November 2014 and it was replied in December 2014 that ICTR&D Company is a company set up under Section 42 of the Companies Ordinance 1984 and by independent Board of

Directors. The telecom operators have been approaching the ICTR&D Company to fund the specialized short term training courses for capacity building of their employees in various areas of management and the programme was started in the light of policy framework, vision and Board's policy objectives.

The reply was misleading therefore not acceptable. Funds provided to the ICTR&D Company are public funds and should only be spent exclusively for Research and Development in accordance with the provisions of the Act. The expenditure incurred on training of employees of Telecom Operators in the disciplines of Management, marketing and finance was not covered under the rules therefore, the responsibility for not complying the rules while spending public funds should be fixed.

In DAC meeting held on 18th December, 2014, the PAO settled the para. However, audit and DFA (IT) did not agree and it was finally decided to place the para before PAC for decision.

Audit recommends that the Funds provided to the ICTR&D Company are public funds and should only be spent exclusively for Research and Development in accordance with the provisions of Telecom Reorganization (Amended) Act, 2006. The expenditure incurred was not covered under the rules and the telecom operators should have arranged such trainings at their own cost.

No further progress was reported till finalization of this Report.

(Based on PDP No.221)

4.14 Non accountal and repossession of asset against technical R&D projects – Rs 16.06 million

According to Rule 8(1) of R&D Rules 2006, all Intellectual Property Rights in, arising out of or capable of legal recognition in respect of projects implemented by the company shall vest absolutely in the company on the basis of the projects. Rule 5(g) of R&D Rules requires that the Board shall

ensure the integrity of the Company's accounting and financial reporting systems.

Further, Rule 155 of GFR Vol-1, requires that a reliable list, inventory or account of all stores/stock should be maintained to enable a ready verification of stores and check of accounts at any time and transactions must be recorded in as they occur.

In violation of the above rules, assets amounting to Rs 16.064 million were procured by Principal Investigators in various technical R&D projects. ICTR&D Company neither accounted for the assets nor recovered from the PIs on completion of the projects. These assets were remained in use of PIs / PIOs even after completion of the Projects.

The issue of non accountal was pointed out in November 2014 and it was replied in December 2014 that the mandate of ICTR&D Company is to fund research and development initiatives in ICT field and ownership and title of the assets procured by Project Investigators rests with ICTR&D Company. However, the same may not be reflected in the books of accounts of the company since all the grants are recorded as expense.

The reply was not acceptable as if the ICTR&D Company has title and ownership of the assets then they shall be recognized and reflected in the assets of the company further the policy referred regarding repossession of assets in custody of PIO may be devised and got approved from Board.

DAC in its meeting held on 18th December, 2014 directed the management to remove the irregularities pointed out by audit and record relating to recognition of assets in company's accounts be got verified from audit.

Audit recommends that the policy regarding repossession of assets procured in Technical R&D Projects be got approved and the all the assets procured by PIs / PIOs may be recognized in books of ICTR&D Company.

No further progress was reported till finalization of this Report.

(Based on PDP No.228)

4.15 Unauthorized expenditure on pay & allowances due to non transparent appointment of civil servant on contract basis as CFO - Rs 4.0821 million

A Civil Servant can be posted under Section 10 of Civil Servant's Act 1973 or through his posting on deputation basis in terms of Sr. No. 29 of Civil Establishment Code.

An advertisement was published in newspaper for hiring of Chief Finance Officer (CFO) in ICT R&D Company on 6th May, 2012. In 27th HRGC meeting held on 8th December, 2012, it was informed that 166 applications were received in response to the advertisement; out of these 17 candidates were shortlisted and 11 interviewed. Further, the Board approved one candidate out of three recommended by HRGC subject to Government's consent. The company issued an offer letter to the officer on 9th January, 2013 which was accepted by the officer but did not join till 25th February, 2013. The officer joined the company on 1st March, 2013 upon his posting under section 10 in the light of Establishment Division letter dated 28th February, 2013 and the ICT R&D Company executed an employment contract for a period of three years. Subsequently, the officer was repatriated to his parent department vide Establishment Division's letter dated 11.02.2014.

The appointment of a Civil Servant on contract basis without resignation from previous job cannot be made. Therefore, the recruitment process, the execution of the contract by ICT R&D Company with the Civil Servant and expenditure on account of pay & allowance of Rs 4.081 million @ Rs 354,833 per month for a period of 11.5 months was held unauthorized.

The matter was pointed out in November 2014 and it was replied in December 2014 that the officer was posted under government rules but the company additionally had to follow its own formalities as well.

The reply was not tenable being in violation of the initial appointment rules. Further, the Civil Servant cannot be appointed on contractual service without resignation from its previous service.

DAC in its meeting held on 18th December, 2014 directed the management that the excess amount paid to the officer in excess of permissible limit be recovered from the officer concerned or from the HRGC who recommended the Civil Servant to Board for appointment.

Audit recommends that the matter be investigated to fix the responsibility for appointing a Civil Servant on contract basis and recovering the amount in the light of DAC directives.

No further progress was reported till finalization of this Report.

(Based on PDP No.255)

CHAPTER-5

NATIONAL TELECOMMUNICATION CORPORATION

5. NATIONAL TELECOMMUNICATION CORPORATION

5.1 Introduction

National Telecommunication Corporation (NTC) was established on 1st January, 1996 under the Pakistan Telecommunication (Reorganization) Act, 1996. The Corporation is a body corporate, managed by a Management Board consisting of a Chairman and two other members, to be appointed by the Federal Government. NTC is working under the administrative control of the Ministry of Information Technology and Telecom Division (MoIT&T). NTC shall also maintain a fund known as NTC Fund which consists of grants, loans etc.

NTC shall for each financial year, prepare its own budget and submit it for approval of the Federal Government before 1st June every year. Any surplus over receipt in a financial year shall be remitted to the FCF and any deficit from actual expenditure shall be made up by the Federal Government. The accounts of NTC shall be maintained in a form and format as the Federal Government may determine in consultation with the Auditor General of Pakistan. In addition to the audit by the Auditor General, NTC may cause its accounts to be audited by Internal or other external auditors.

Its main function is the provision of telecommunication services to its designated customers, which include Federal and Provincial Governments, Defence Services or such other Government agencies/institutions as the Federal Government may determine.

5.2 Comments on Budget and Accounts

NTC management did not provide the annual audited accounts till the finalization of the report despite continuous pursuance by audit.

5.3 Status of Compliance with PAC Directives

NTC, Ministry of Information Technology

Following table shows the compliance status of PAC directives.

| S. No | Audit Year | Total Paras | Total Directives | Compliance | | %age |
|-------|----------------|-------------|------------------|------------|--------------|------|
| | | | | Received | Not received | |
| 01 | 1996-97 | 16 | 3 | 3 | 0 | 100 |
| 02 | 1997-98 | 11 | 11 | 11 | 0 | 100 |
| 03 | 1999-00 | 15 | 15 | 6 | 9 | 40 |
| 04 | 2000-01 | 17 | 17 | 10 | 7 | 59 |
| 05 | 2001-02 | 16 | 16 | 12 | 4 | 75 |
| 06 | 2004-05 | 06 | 06 | 02 | 04 | 33 |
| 07 | 2005-06 SAR | 31 | 31 | 0 | 31 | 0 |
| 08 | 2005-06 | 15 | 15 | 02 | 13 | 19 |
| 09 | 2006-07 | 04 | 04 | 00 | 04 | 00 |
| 10 | 2007-08 | 13 | 07 | 0 | 07 | 00 |
| 11 | 2008-09 | 14 | 14 | 4 | 10 | 29 |

AUDIT PARAS

5.4 Non recovery of outstanding dues - Rs 120.085 million

According to Annex-H of NTC Recovery, Dispute Resolution and Doubtful / Bad Debt Policy, in case a Government client / department fails to clear the dues within six months reckoned from the bill month, the facility would be permanently disconnected. Prior to permanent disconnection, a letter will be served by the regional head to an officer of equivalent grade (BPS 19/20) of the concerned Ministry / Department.

NTC directorates did not recover the outstanding dues of Rs 120.085 million from various designated customers on account of working, closed, digital subscriber lines, casual, unidentified and primary rate interference connections during financial year 2013-14. Detail is as under:

| S. No | Name of Unit | Description | No of connections | Amount (Rs) |
|--------------|----------------------------------|---|-------------------|--------------------|
| 01 | Director NTC Karachi | Working, DSL, Casual, & UI | 280 | 53,170,981 |
| 02 | Director NTC, Quetta | Working, DSL, Casual, UI & Closed | 429 | 4,283,010 |
| 03 | Director NTC, Multan | Working, DSL Casual Closed & WLL | 159 | 21,718,263 |
| 04 | Director NTC, Lahore (6-APs) | Working, Closed, Casual WLL,DSL and PRI | 291 | 23,357,820 |
| 05 | Director NTC, Islamabad (04 APs) | Working, Closed, DSL, and PRI | 292 | 14,529,347 |
| 06 | Director NTC Peshawar (04 APs) | Working, DSL Casual & Closed | 332 | 3,025,877 |
| TOTAL | | | 3,286 | 120,085,298 |

The matter was reported in October 2014 and it was replied in December 2014 that the efforts are underway to recover the outstanding dues.

The reply was not tenable because no efforts were made for recovery of these outstanding dues. Furthermore, actions as required in the policy were also not taken against the defaulters.

DAC in its meeting held on 17th December, 2014 directed the NTC management for verification of recovered amount and recovery of the balance amount at the earliest.

Audit recommends that responsibility for non-recovery of outstanding dues on and violation of rules should be fixed besides recovery of the amounts from the departments concerned and deposited into Government account.

No further progress was reported till finalization of this Report.

(Based on PDP No.64, 66, 72 & 14 APs)

5.5 Non recovery of interconnect charges from mobile operators – Rs 17.896 million

According to Rule 26 to 28 of GFR Vol-I, it is the duty of the departmental controlling officers to see that all sums due to Government are regularly and promptly assessed, realized and credited to accounts. No amount due to Government should be kept outstanding without sufficient reason.

NTC management failed to recover an amount of Rs 17.897 million on account of interconnect charges from various mobile operators in violation of the above rule during 2013-14. Furthermore, NTC had not provided the aging of the receivables. Detail of the receivables is as under:

| S.No | Name of Company | Amount billed 2013-14 | Closing Balance 30.06.2014 |
|--------------|-----------------|--------------------------|-------------------------------|
| 01 | M/s PMCL | 15,691,319 | 5,557,009 |
| 02 | M/s Telenor | 10,011,339 | 2,018,040 |
| 03 | M/s Ufone | 14,338,945 | 2,595,782 |
| 04 | M/s Zong | 7,288,478 | 1,598,010 |
| 05 | M/s Warid | 9,280,975 | 6,126,823 |
| TOTAL | | 56,611,056 | 17,895,664 |

The matter was reported in November 2014 and it was replied in December 2014 that NTC interconnect cost payments are more than its interconnect revenue receivables. During 2013-14 NTC interconnect cost payable to mobile operator were Rs 355 million whereas NTC interconnect revenue receivable from these mobile operators were Rs 56 million.

The reply was not acceptable because the amount was still appearing as receivable in the NTC books of account, therefore the same should be recovered or adjusted at the earliest.

DAC in its meeting held on 17th December, 2014 directed the management for verification of recovered amount and recovery of the balance amount at the earliest.

Audit recommends that outstanding amounts should be recovered at the earliest and gets it verified from audit besides fixation of responsibility for non recovery till date.

No further progress was reported till finalization of this Report.

(Based on PDP No.151)

5.6 Non-recovery of revenue receipts – Rs 23.510 million

According to the terms and conditions of the invoices / bills stipulates that payment be made to NTC Headquarters within fifteen days

from the date of issuance through bank draft / cheque or remit of the same to NTC revenue account.

Further, Rule 26 to 28 of GFR Vol-I, states that it is the duty of the departmental controlling officers to see that all sums due to Government are regularly and promptly assessed, realized and credited to accounts. No amount due to Government should be kept outstanding without sufficient reason.

In violation of the above, NTC management did not recover an amount of Rs 23.510 million on account of co-location charges, rent of microwave circuits, web hosting and MSDN Intranet from different telecom companies during FY 2013-14. Furthermore, no efforts were made for recovery of chronic receivables since long. Detail is as under:

| S.No | Name of Service | Amount (Rs) |
|--------------|-------------------------------------|-------------------|
| 01 | Co-Location Charges (Space & Tower) | 10,870,413 |
| 02 | Co-Location (chronicle receivable) | 10,643,295 |
| 02 | Rent of Microwave Circuits | 352,078 |
| 03 | MSDN Intranet | 926,108 |
| 04 | Webhosting | 718,149 |
| TOTAL | | 23,510,043 |

The matter was reported in November 2014 and it was replied in December 2014 that Rs 1.5 million on account of collocation charges have been recovered so far. As per recoveries budget is prepared at 98% of current year bill amount under various heads. The current year billing of Rs 286 million, NTC revenue team was able to recover Rs 287 million which is more than the budget target as well as 100% recovery during the year.

The reply was not tenable because the percentage given in the reply showed recovery of previous dues during 2013-14 and not against the current billing. However, the recovered amount got verified besides the recovery of balance amount.

DAC in its meeting held on 17th December, 2014 directed the management for verification of recovered amount and recovery of the balance amount at the earliest.

Audit recommends that outstanding amounts should be recovered at the earliest and gets it verified from audit despite fixation of responsibility till date.

No further progress was reported till finalization of this Report.

(Based on PDP No.149, 150)

5.7 Delay in recovery of NTC dues on account of pre deposit works - Rs 14.848 million

As per Para 10 of NTC Pre Deposit Policy, upon completion of the work, the concerned Director shall prepare and issue the final capital cost bill. The client will be required to deposit / settle the bill within two months of the receipt of the Final Capital Cost Bill.

Contrary to the above, NTC management did not recover an amount of Rs 14.848 million against pre deposit works during financial year 2013-14.

The matter was reported to the management during October / November 2014 and it was replied in December 2014 that efforts are being made to recover the outstanding amount from completed pre-deposit works. As reflected in the statement of receivables most of the works have been completed in June 2014. Nevertheless, the updated status of the recovery will be intimated to audit in due course of time.

The reply is misleading therefore not tenable. The amount was required to be recovered within two months of the receipt of FCC bill by the client but it was not recovered even after close of the financial year.

DAC in its meeting held on 17th December, 2014 directed the NTC management for verification of recovered amount and recovery of the balance amount at the earliest

Audit recommends that the matter be investigated and responsibility be fixed on persons who failed to recover the amount on account of pre-deposit work within scheduled time.

No further progress was reported till finalization of this Report.

(Based on PDP No.43, 84, 85, 86 & 117)

5.8 Non recovery on account of rent of building - Rs 8.198 million

According to clause 1 (b) (iv) of lease agreement between Director NTC Lahore and M/s Multinet Pakistan (Private) Limited, 03 months advance payment will be paid before commencement of each quarter of every year failing to which a surcharge equal to 5% per month will be embossed on outstanding amount on each day.

Director NTC, Lahore rented out 1st & 2nd floor of NTC building to M/s Multinet Pakistan. An amount of Rs 8.198 million of monthly advance rent and late delivery charges of both floors is outstanding from M/s Multinet during 2013-14 as detailed below:-

| S.No | Floor | Period | Area (sq/ft) | Rate (Rs) | Amount (Rs) | Remarks |
|---------------|-------|----------------------|--------------|-----------|------------------|--------------|
| 01 | 1st | - | - | - | 259,000 | LD Charges |
| 02 | 1st | 01.03.14 to 30.06.14 | 9600 | 136.05 | 5,224,320 | Monthly rent |
| 03 | 2nd | 01.06.14 to 30.06.14 | 9600 | - | 419174 | LD Charges |
| 04 | 2nd | 01.02.14 to 30.04.14 | 3555 | 124.5 | 1327940 | Monthly rent |
| 05 | 2nd | 01.05.14 to 30.06.14 | 3555 | 136.05 | 967316 | Monthly rent |
| Total: | | | | | 8,197,750 | |

The matter was reported in September 2014 and it was replied in December 2014 that an amount of Rs 5.369 million has been recovered and efforts are being made to recover the balance amount.

The reply was not tenable because no documentary evidence of recovered amount was provided to audit for verification.

DAC in its meeting held on 17th December, 2014 directed the NTC management to provide the recovery particulars to Audit for verification besides recovery of balance amount.

Audit recommends that the matter be investigated and responsibility be fixed on persons who failed to recover the amount on account of rent of building within scheduled time.

No further progress was reported till finalization of this Report.

(Based on PDP No.41)

5.9 Irreparable loss to NTC due to unwise decisions – Rs 732.779 million

According to para 23 of GFR Vol-I, every Government officer should realize fully and clearly that he would be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

The objection petition filed by NTC in case of M/s Catcom was decided by the Court on 20.05.2013 and there was appeal time upto 15.06.2013. NTC sought legal advice on 19.06.2013 through MoIT after expiry of the appeal period. The Ministry of Law & Justice informed vide letter No.780/2013-Sol-I dated 3rd July, 2013 that "*NTC could neither substantiate its case before the Arbitrator nor before the High Court, hence, it would be difficult to succeed before the apex Court, therefore, the NTC*

may implement the judgment of the High Court dated 20.05.2013 in letter and spirit". However, the decision had not been signed any officer of the said Ministry. On the basis of the legal advice and non pursuance of the case by the top management of NTC the execution petition CM No.127/130 of 2014 was decided by the Court on 03.03.2014 which resulted into irreparable loss to NTC.

Moreover, NTC management had continued to make payment of APC for USF to PTA amounting to Rs 523.995 million from 01.01.2007 to 30.06.2011 despite the fact that the case was decided by the Arbitrator on 15.08.2006. The payment relates to the International Traffic as a result of establishment of International Gateway Exchange with the joint collaboration with M/s Catcom and M/s Zahracom therefore NTC may contest the payment with competent forum. Further, the then Chief Technical Officer (CTO) of NTC and GM (Finance) also gives their opinion on 06.06.2011 that case is in litigation therefore, further payment of Rs 318 million from NTCs own fund was not prudent being government organization. This resulted into total irreparable loss to NTC of Rs 732.779 million. Detail is as under:

| S.No | Description | Amount (Rs) |
|------|--|--------------------|
| 01 | Balance in joint account as Bank Statement | 897,839,676 |
| 02 | Amount received by NTC after Court decision | 694,061,022 |
| | Loss | 203,778,654 |
| 03 | Amount billed on account of APC for USF by PTA and NTC make payment as under: 1 st January, 2007 Rs 50,000,000 28 th March, 2007 Rs 25,000,000 28 th September, 2007 Rs 100,000,000 29 th January, 2008 Rs 30,000,000 cheque No.9730546 30 th June, 2011 Rs 318,995,484 | 523,995,482 |
| | Total Loss | 732,778,654 |

In addition NTC management paid heavy amounts to the Lawyers but all have gone waste due to non-pursuance of the case personally.

The matter was reported in November 2014 and it was replied in December 2014 that the subject matter was thoroughly scrutinized by the AGP team and SAR was discussed in DAC / PAC in proceeding years. However, as per rules of business it was binding to approach Ministry of Law & justice to seek legal advice, hence chairman NTC accordingly in his remarks accorded for necessary action for legal advice of law division. Nevertheless, instead seeking legal advice from law division, the DGs opted to approach the lawyers. An appeal was filed before Islamabad High Court Division bench on 17th June, 2013 by the DGs which had already time barred for two days. The legal advice received on 10th September, 2013 enunciated that NTC may implement the judgment of High Court dated 20th May, 2013. As regard to payment of APC for USF, the same was made on continuous demand notices by PTA. Further, audit in SAR against para No.4.13 & 4.14 had observed that NTC has not initially paid APC for USF to PTA. In the light of DAC decision on SAR and later on directive of PAC in case of PTA receivable NTC made major payment to satisfy PAC.

The reply is misleading therefore not acceptable. The para does not relate to the SAR as referred in the reply. The time for appeal is up till 15.06.2013 whereas the legal advice was called for on 19.06.2013. The decision of taking legal advice after expiry of appeal period showed an undue favour. The decision of law which was referred in the reply had not been signed any representative of the concerned division; therefore not valid. As regard to the payment of APC for USF, it was totally related to the international traffic as a result of establishment of gateway exchange. When NTC knows that the arbitrator has given the decision in 2006 and the decision was final then payment should not be made and matter should be taken up with audit, PAC and PTA on the solid grounds.

DAC in its meeting held on 17th December, 2014 directed the management to make a comprehensive departmental inquiry including the representative from MoIT and DFA (IT) to ascertain the persons at fault for the loss and submit report to the PAO.

Audit recommends that the DAC directives be implemented besides fixing the responsibility on persons at fault.

No further progress was reported till finalization of this Report.

(Based on PDP No.133)

5.10 **Unauthorized placement of funds in the Bank of Punjab - Rs 694.061 million**

According to para 7 of NTC approved accounting procedure all receipts including telephone revenue and payment in lieu of leased / speech circuits should be deposited in the Revenue Account.

The execution petition No.68/2013 was decided by the Honorable Islamabad High Court, Islamabad on 03.03.2014 in the light Arbitration Award dated 15.08.2006 and earlier judgment of the High Court dated 20.05.2013. The court decided the share as 63.84% for NTC and 36.16% for Catcom as detailed below:

| | |
|--|-----------------------|
| Balance in joint account as per Bank Statement | 897,839,676.42 |
| NTC share as per Court Orders (A) | 690,087,193 |
| Catcom share as per Court Order (B) | 201,527,813 |
| Total Share (A+B) | 891,615,006 |
| Available balance after disbursement as per Court Orders | 6,224,670.68 |
| Share of NTC as per Court Order 63.84% of remaining balance in joint account | 3,973,829.59 |
| Total share of NTC | 694,061,022.59 |

Director General (Finance) NTC Headquarter proposed to place the funds in NTC daily product account at Bank of Punjab which was approved

by the Chairman. The subject amount should be deposited in the Revenue Account of NTC instead in BOP. The action of the NTC management was in violation of its own accounting procedure therefore, placement of funds held unauthorized.

The matter was reported in November 2014 and it was replied in December 2014 that NTC is maintaining its Revenue Collection business with NBP & BoP, accordingly revenue collection accounts are maintained with both banks. The amounts collected are transferred from revenue account to interest bearing account on daily basis maintained with both banks. The subject amount is not a revenue collection but a transfer from Joint Account to NTC Account under the court orders. Further, the interest rate of BoP was higher than NBP, therefore, the amount was deposited in daily product account with BoP to earn more profit.

The reply was not tenable being not based on facts. The money received from joint account was related to revenue from Gateway Operations and therefore remittance of funds in BoP instead of revenue account is the violation of the NTC own accounting procedure. Moreover, if NTC did not consider it as revenue then it should be deposited to Federal Consolidated Fund as surplus.

DAC in its meeting held on 17th December, 2014 took serious notice and directed the management to withdraw the amount from Bank of Punjab immediately and deposit it into the revenue account.

Audit recommends that facts finding inquiry at PAO level should be made for fixation of responsibility under intimation to Audit.

No further progress was reported till finalization of this Report.

(Based on PDP No.132)

5.11 Unlawful investment of funds – Rs 1,742.080 million

According to Ministry of Finance OM No.F.3(11)-Exp-1/73 dated 08.02.1974, the organization established under statutes, the financial powers of their governing bodies are normally laid down in the relevant statute. NTC has been established through Telecommunication (Re-organization) Act, 1996. There is no provision under section 41 of the Act which allow NTC to make investment of surplus funds. However section 41 (9) clearly states that “any surplus receipt over actual expenditure in a year shall be remitted to Federal Consolidated Fund (FCF) and any deficit from actual expenditure shall be made up by Federal Government”. Further, Finance Division OM No F.4(1)/2002-BR-11 dated 02.07.2003 provides that working balance limit of each organization should be determined with the approval of Administrative Ministry in consultation with Finance Division and the amount of working balance may be maintained in the current or SB account.

Approved working balance of NTC is Rs 300 million which could be placed in a bank as per approved policy whereas NTC made an investment of Rs 1,742.080 million in commercial banks without any legal authority. The investment was made without any approval from the Finance Division in violation of the above. Further, the investment was made at different rate of interest by ignoring the principle of highest rates offered by the bank. Detail is as under:

| S.No | Name of Bank | Date & rate of Investment | Amount (Rs) |
|--------------|---|---------------------------|----------------------|
| 01 | Bank of Punjab, Blue Area, Islamabad | 03.01.2014 @ 10.65% pa | 333,574,010 |
| 02 | National Bank of Pakistan, PARC Branch, Islamabad | 03.01.2014 @ 10.40% pa | 450,000,000 |
| 03 | Samba Bank Limited, F-7 Branch, Islamabad | 03.01.2014 @ 10.40% pa | 303,679,240 |
| 04 | National Bank of Pakistan, PARC Branch, Islamabad | 02.01.2014 @ 10.40% pa | 654,826,499 |
| TOTAL | | | 1,742,079,749 |

The matter was reported in November 2014 and it was replied in December 2014 that under section 41 (9) of Pakistan Telecommunication Reorganization Act any surplus of receipt over the actual expenditure in a year shall be remitted to Federal consolidated fund and any deficit from actual expenditure shall be made up by a Federal Government. Calculation of surplus/deficit may be seen from the cash flow statement being part of NTC Audited accounts where it is obvious that NTC own investment are part of cash available which is appropriated against Development / replacement of assets, Working capital and accrued & other liabilities. The funds available are working balance of the Corporation is Rs 300 million and other funds that are committed against ADP & Accrued Liabilities. To keep the money value intact, funds need to be placed in profit bearing accounts or schemes. As these funds are available temporarily for short period and need to be used to meet the commitments, so they are invested for short terms i.e. six months only.

The reply is misleading therefore not acceptable being against the facts. NTC management got approved ADP year by year for an exaggerated figures and invest these funds without any legal authority. The investments were made only to avoid remittance of surplus to FCF.

DAC in its meeting held on 17th December, 2014 directed the management to provide the details of surplus remitted to FCF in last three years and get verified all relevant record from Audit.

Audit recommends that matter may be investigated at MoIT level with representative of Ministry of Finance and responsibility be fixed for unlawful investments.

No further progress was reported till finalization of this Report.

(Based on PDP No131)

5.12 Un-authorized expenditure on account of payment to State Life Corporation - Rs 4.456 million

According to Rule 9 of GFR Vol I, as a general rule, no authority may incur any expenditure or enter into any liability involving expenditure from public funds until the expenditure has been sanctioned by general or special orders of the President or by an authority to which power has been duly delegated in this behalf and the expenditure has been provided for in the authorized grants and appropriations for the year.

NTC Management incurred an expenditure of Rs 4.456 million on account of payment of premium to State Life Insurance Corporation of Pakistan for provision of insurance to NTC employees during 2013-14. The insurance policy was neither approved in Accounting Procedure of NTC nor from competent authority. Further, no deduction of state life insurance was made from the pay of employees.

The matter was reported in November 2014 and it was replied in December 2014 that organizations adopt various welfare schemes for the social benefits of their employees to enhance their efficiency for achievement of organizational goals. In view of the present economic situation, the insurance amount is considered to be less, and more and more organizations particularly public sector corporations / companies, Federal, Provincial, and Armed Forces etc, preferred to obtain policies from Insurance companies particularly with State Life Insurance Corporation of Pakistan owned by the Government of Pakistan. The insurance scheme has been adopted after approval from the Competent Forum i.e., NTC Management Board w.e.f. 01/08/2003 issued vide letter No. Admn: 20-1/SLIC/2003 dt: July 24, 2003.

The reply is misleading therefore not acceptable as policy adoption of “State Life Insurance Corporation for all regular employees of NTC was not approved from competent forum.

DAC in its meeting held on 17th December, 2014 directed the management to get the policy approved by competent forum and submit report to PAO.

It is recommended that approval of the competent authority for adopting State Life Insurance instead of Federal Benevolent & Group Insurance be provided to Audit.

No further progress was reported till finalization of this Report.

(Based on PDP No.130)

5.13 Delay in NTC Projects due to non provision of right of way - Rs 27.855 million

According to the Planning Commission's publication on Annual Plan 2014-2015, good governance among other things ensures that stakeholders are involved in all stages of planning, monitoring and evaluation.

Director Development Central Region Lahore incurred Rs 54.694 million under various ADP and non-ADP projects for the FY 2013-2014. The sanctioned projects of Rs 27.856 million were delayed due to non availability of right of way (ROW). NTC does not involve key stakeholder, i.e. the organization which has to give ROW permission, during the planning stage. The stake holder organization responsible for giving ROW permission is involved only at the time of execution. In some cases this resulted in refusal of granting ROW permission (e.g. project on 'Expansion of Secondary OSP Network at NTC exchanges DHA, WAPDA Town and Garden Town Lahore is still not complete due to PCB's unwillingness to give ROW permission to NTC contractor).

The contract agreements made between Dir (Dev) NTC and contractor, invariably placed responsibility of acquiring ROW on the contractor, where in fact the contractor has to ultimately request NTC to

issue letters to the concerned government organization to give ROW permission to him. Audit is of the opinion that delay factor has become part and parcel of NTC contracts and unless NTC does not involve the concerned organization responsible for giving ROW permission at the planning stage and comes to some sort of agreement with it NTC contracts involving ROW will inevitably get delayed.

The matter was reported in September 2014 and it was replied in December 2014 that some delay was occurred due to non availability of NTC store. The other delay was due to non granting of ROW permission by the concerned agencies which is beyond the control of NTC.

The reply was not tenable as NTC must involve all stakeholders in all stages of the project. It should be NTC's responsibility to get some sort of written agreement from the stakeholder organization responsible to give ROW permission at the time of preparing PCII and PCI.

DAC in its meeting held on 17th December, 2014 directed the NTC management to formulate a mechanism for obtaining ROW to avoid delay in the projects. It was further directed that record regarding completed projects be got verified from Audit.

Audit recommends that the DAC directives be implemented in letter and spirit and get it verified from Audit.

No further progress was reported till finalization of this Report.

(Based on PDP No.42)

5.14 Unlawful payment of cash reward - Rs 1.224 million

According to the Finance Division OMNo.F-8(5)R-12/80(R-14)2002-154 dated 18th March, 2002, the payment of cash reward / bonus to the employees by the corporation, autonomous / semi-autonomous bodies could not be made as customary but it would be on the basis of profit

earned and as reflected in the annual audited accounts of the organization. Furthermore, according to Rule 3.7 of NTC Service Regulations, NTC employees can be allowed bonus subject to earning profit by the corporation with the approval of the NTC management board.

In violation of the above, NTC management paid cash reward amounting to Rs 1.224 million to its employees during 2013-14. The issue of the grant of cash reward was discussed in 80th NTC Management Board Meeting as Agenda Item No.05 and Board approved the grant of cash reward despite the fact that NTC had not earned profit and the total operating loss upto May 2013 was Rs 43 million which will further increased to Rs 480.922 million as per Budget Estimates 2013-14. Hence, the award of cash reward is not justified.

The matter was reported in November 2014 and it was replied in December 2014 that in terms of rule No. 3.7 of NTC Service Regulation, NTC employees may be allowed bonus subject to earning profit by the Corporation with the approval of NTC Management Board. NTC inherited tradition of payment of bonus to its employees at the eve of Eid-ul-Fitr from erstwhile PTC. Due to constant efforts of NTC's employees, the corporation is maintaining its Network inspite of having limited designated subscribers as per provision of the Act, in tough competitive market. To keep the talented and professional pool of manpower with the organization and to encourage the low paid employees such incentives are required to be extended so that they may not switch over to other telecos offering attractive perks and privileges to their employees.

The reply was not correct because according to Rule 3.3 the bonus is allowed subject to earning profit whereas NTC have operating loss of Rs 480 million. Hence, the payment of bonus is not justified.

DAC in its meeting held on 17th December, 2014 directed the NTC management to get the expenditure regularized from Finance Division

(Regulation Wing) and stop the practice of payment of cash reward without approval of Finance Division in future.

It is recommended that unlawful amount should be recovered from the persons held responsible besides fixation of responsibility.

No further progress was reported till finalization of this Report.

(Based on PDP No.127)

5.15 Unauthorized expenditure on account of qualification pay - Rs 1.521 million

According to Finance Division (Regulation Wing) OM No.4(7)R-4/2009-NTC dated 26.02.2013 and NTC Headquarter letter No.HR: 18-53/2012/290 dated 27.02.2013, revised qualification pay was approved w.e.f 01.07.2012 as under:

| Qualification | Existing Rates Rs Per Month | Revised Rates Rs Per Month |
|-----------------------|--|---------------------------------------|
| SAS/PFA | 400 | 800 |
| ICMA/ICWA (part-III) | 400 | 800 |
| ICMA/ICWA | 1200 | 2100 |
| Chartered Accountant | 1300 | 2300 |
| Staff College/NMC/NDC | 1000 | 2000 |
| NIPA Advance Course | 500 | 1000 |
| Mid Career Mgt course | 250 | 500 |

Moreover, Finance Division (Regulation Wing) vide OM No.1/7/Imp/ 11/87 dated 01.07.1987, allowed advance increments on acquiring higher qualification over & above the prescribed qualification prescribed in relevant recruitment rules. Finance Division allowed qualification pay on acquiring ICMA, CA and qualifying the courses i.e. PASC, NDC, NIPA etc vide OM No.F.1 (12)/Imp-11/91 dated 19.08.1991.

NTC management continued to making payment on account of qualification pay to its employees @ Rs 1,200 per month despite pointing out in previous Audit Report whereas the revised rates of qualification pay did not include the said rate. An amount of Rs 1.522 million was paid on this account during 2013-14. It was further observed that NTC had been paying qualification pay @ 1200 PM & 1700 PM to the officers/officials having MS, MBA, MPA, MSC, ACMA, ACA, MSC (Eng), MIT, and MCS, BE in IT and Engineering etc. This payment was made to those employees whose basic / minimum required qualification prescribed in the Employee Service Regulations of NTC was that against which the qualification pay was being paid.

The matter was reported in November 2014 and it was replied in December 2014 that qualification pay to employees was being paid as per Rule No.3.3 (iii) of NTC Service Regulations duly approved by Finance Division. Qualification Pay was not paid on the pattern of advance increment. The qualification pay to NTC employees was granted on holding professional degree mentioned in Rule No.3.3 (iii) of NTC Service Regulations. The Federal government employees who possessed / acquired ICMA/CA qualifications were allowed qualification pay without consideration of the prescribed qualification or otherwise. NTC employees were paid qualification pay on the same analogy.

The reply was not tenable as the qualification pay was not paid according to the approved rates by the Finance Division (Regulation Wing) as stated above.

DAC in its meeting held on 17th December, 2014 directed the management to provide all record as mentioned in the reply for verification.

Audit recommends that NTC should investigate and fix responsibility on those, who approved these unauthorized payments along

with recovery of the amounts on account of unapproved qualification pay already made.

No further progress was reported till finalization of this Report.

(Based on PDP No.126)

5.16 Non recovery of liquidated charges - Rs 1.453 million

According to clause 9.1 and 9.2 of the contract agreements, in case the contractor fails to complete the work, within the prescribed time, then the contractor shall pay to NTC liquidated damages equivalent to 0.5% per week of the final value of the actual work / final payment. The maximum liquidated damages to be paid by the contractor will be 10% of total value of actual work done in case of delay.

NTC did not recover liquidated charges of Rs 1.453 million from the contractors who failed to complete the work in prescribed period.

| S. No | Name of formation | Description | Amount (Rs) |
|--------------|----------------------------|---|------------------|
| 01 | Director Dev. NTC, Karachi | The amount was kept as retention money instead of deduction as liquidated damages | 558,908 |
| 02 | Dir. Dev. NTC, Islamabad | The work should be completed on 17.10.12 but was not completed till the last day of field audit, therefore, 10% penalty should be recovered | 390,680 |
| 03 | Dir. Dev. NTC, Islamabad | The work should be completed on 18.11.13 but was not completed till the last day of field audit, therefore, 10% penalty should be recovered | 503,657 |
| Total | | | 1,453,245 |

The matter was reported in October 2014 and it was replied in December 2014 against Sr. No 1 that LD charges will be deducted from the

final payment as the amount has been retained to ascertain the facts about delay. The Provisional Acceptance Test (PAT) has not been done so for being work in progress. LDs will be assessed at the time of final payment.

The reply is not tenable as final bills have already been submitted to NTC, hence LD charges be recovered instead of retaining them. Further LD against the work in progress should also be calculated and recovered if applicable.

DAC in its meeting held on 17th December, 2014 directed the NTC management for verification of recovered amount and recovery of the balance amount at the earliest. Further it was directed to provide the time extension given in the project for verification by Audit. In case of no extension the amount of LD may be recovered.

Audit recommends that the recovered amount and extension given in the projects be got verified from audit and the balance amount be recovered at the earliest.

No further progress was reported till finalization of this Report.

(Based on PDP No.79, 113 & 114)

5.17 Un justified payment against incomplete work – Rs 13.900 million and non recovery of Rs 2.844 million

According to Rule 26 of GFR Vol-I, it is the duty of the Departmental Controlling Officer to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the Public Account.

A contract was signed between NTC and M/s Telecom Foundation on 14th April, 2006 for Laying of Optical Fiber Cable on 48 sites of Electronic Government Directorate, Islamabad. The total cost of the project was Rs 15.190 million and completion period was 120 days from the date of

commencement i.e 14.04.2006. An amount of Rs 13.900 million was paid to the contractor on this account. Audit observed the following irregularities:

- i) The contractor could not complete the work within stipulated time period. Therefore, NTC management floated fresh tenders for rectification of remaining work of the project at risk and cost basis of M/s Telecom Foundation in June 2013. The contract for rectification of remaining work at 25 sites was awarded to M/s Muhammad Nawaz Khan & Brothers being the lowest at cost of Rs 9.955 million. NTC management made the payment to contractor after completion of work but did not issue any claim to M/s Telecom Foundation for recovery of this amount because rectification work was awarded to new contractor at risk and cost basis of M/s Telecom Foundation.
- ii) Record revealed that 7 sites were closed and permission on 5 sites was not granted by CDA, therefore work was carried out on 36 sites whereas payment was made to the contractor for 48 sites resulted into overpayment of Rs 3.792 million.
- iii) Record further revealed that 9 sites were damages by the CDA. The matter was taken up with CDA for recovery but no claim was received. This had resulted into loss of Rs 2.844 million.

The matter was reported in October 2014 and it was replied in December 2014 although the work was not completed in stipulated time but inspections for all sites were done and running payment was made accordingly. Payments were not made site wise rather running payments were made so no question of overpayment arises. As regard to recovery of damages from CDA the matter has already been taken up.

The reply was not acceptable because the work was abnormally delayed by the contractor but no action was taken. Further no efforts were made for recovery of damages from CDA.

DAC in its meeting held on 17th December, 2014 directed the NTC management to raise the claim and amount to be recovered and get it verified from audit.

Audit recommends immediate implementation of DAC directives besides fixing of responsibility against those at fault.

No further progress was reported till finalization of this Report.

(Based on PDP No.109)

5.18 Irregular procurement of proprietary items - Rs 26.745 million

According to Rule 42 (c) (ii) of Public Procurement Rules 2004, a procuring agency shall only engage in direct contracting if only one manufacturer or supplier exists for the required procurement provided that the procuring agencies shall specify the appropriate fora, which may authorize procurement of proprietary object after due diligence. Moreover, as per Rule 148 of GFR, all material received should be examined, counted, measured or weighted as the case may be, when delivery is taken and that should be taken in charge by a responsible Govt. officer who should see that the quantities are correct and their quality is good and record a certificate to that effect.

A contract was awarded to M/s Huawei Technologies (Pvt.) Ltd for provision of Multi Service Access Gateways (MSAGs) along with laying of UG and Optical Fiber Cable Network at HIT & Taxila. The procurement was made through direct contracting from vendor being proprietary items. An amount of Rs 26.745 million was incurred on procurement. Following irregularities were observed:-

- i) The Multi Service Access Gateways (MSAGs) were purchased by obtaining certificates from M/s Huawei being proprietary item instead of obtaining this decision from a competent forum which was not established.

- ii) As per Summary of Price List contained in Annexure–A of the agreement, the total solution price of the contract was Rs 46.024 million but the contractor allowed the volume item discount and onetime special discount of Rs 20.024 million to NTC and final price was agreed at Rs 26.000 million. The contract was awarded on single bid basis and contractor was allowed to quote rate at his own choice.
- iii) As per clause 11.1 of the agreement, 55% payment was to be made to the contractor on successful delivery of the equipment which will be verified by the Project Director. The store supplied by the contractor was inspected by the nominated committee who reported that 2 Multi Service Access Gateways (MSAGs) and their allied equipment were defective. The Director (Procurement) NTC HQ informed that M/s Huawei has delivered new MSAGs at site so the delivery payment should be made in full after replacement of damaged MSAGs with new one. But M/s. Huawei only delivered new Cabinet instead of new MSAGs. However, NTC management made the payment of Rs 18.200 million to contractor by accepting the defective stores.

The matter was reported in October 2014 and it was replied in December 2014 that the contract was awarded to M/s Huawei on propriety basis. Further MSAG cabinet was damaged however, its working was found satisfactory by the NTC PAT team and no service related malfunctioning was observed since then. However a new cabinet of the same specifications was also delivered by M/s Huawei in lieu of this damaged cabinet

The reply is not tenable because the MSAG was not propriety item as the same has previously been procured from other contractors. Further the contract was awarded on single bid and allowed to quote the price of its own choice after negotiation in violation of PPRA Rules.

DAC in its meeting held on 17th December, 2014 directed the NTC management to get the record verified from audit regarding propriety certificate.

Audit recommends for immediate compliance of the DAC directives.

No further progress was reported till finalization of this Report.

(Based on PDP No 108)

5.19 Non finalization of refund claim of excess fee paid to PTA - Rs 7.972 million

As per para 4.2 of general conditions of the license, NTC is liable to pay all annual fees to the Authority and make contributions to the Funds within 120 days of the end of Financial Year to which such fees relate. Furthermore, the licensee shall annually submit to the Authority audited financial statements in support of its calculations of annual fees and contributions payable pursuant to this Article 4.

NTC management continuously paid annual license fee to PTA at prescribed rates on the basis of provisional accounts due to non-finalization of annual audited accounts well in time which resulted into overpayment of fee to PTA amounting to Rs 7.972 million. NTC management had taken up the case with PTA for refund of excess amount from 2004-05 to 2012-13 first times in May 2014 with a considerable delay. The detailed working made by the Accounts department of NTC was also forwarded to PTA on 1st July, 2014 upon which PTA disagreed. However, NTC failed to mature the refund claim till date which showed ineffective financial management and loose internal controls in the organization.

The matter was reported in November 2014 and it was replied in December 2014 that prior to year 2006, NTC was paying license fee on the basis of gross revenue @ 0.66%, however on 2nd May 2006, NTC's license was modified by calculating on the basis of 0.50%. NTC paid license fee in subsequent years which resulted into overpayment. NTC has to make the payment of annual license fee up to 31st October each year, whereas NTC accounts took long time for finalization, therefore payment is being made on the basis of provisional accounts. NTC (I&RA) Directorate is continuously

pursuing the case regarding refund / adjustment of excess payment of annual license fee paid to PTA.

The reply was not tenable because the NTC management had taken up the case first time in May 2014 from 2004-05 to onward for which responsibility needs to be fixed. It is recommended that refund should be finalized at the earliest under intimation to Audit.

DAC in its meeting held on 17th December, 2014 took serious notice and directed the management to finalize the financial statements well in time. It was further directed to finalize the refund case with PTA at the earliest and get it verified from Audit.

Audit recommends that matter should be investigated to fix the responsibility for delayed submission of refund claim besides early finalization of the refund claim.

No further progress was reported till finalization of this Report.

(Based on PDP No.138)

5.20 Non finalization of annual audited accounts for the year 2012-13 & 2013-14 and provisional payment of fee to PTA – Rs 8.503 million

As per para 4.2 of general conditions of the license, NTC is liable to pay all annual fees to the Authority and make contributions to the Funds within 120 days of the end of Financial Year to which such fees relate. Furthermore, the licensee shall annually submit to the Authority Audited Financial Statements in support of its calculations of annual fees and contributions payable pursuant to this Article 4.

NTC management paid an amount of Rs 8.503 million to PTA on account of annual license fee for the year 2012-13 as detailed below.

| S.No | Voucher No. & date | Description | Amount (Rs) |
|------|--------------------|--------------------|-------------|
| 01 | 149/28.10.2013 | Annual license fee | 6,818,646 |

| | | | |
|--------------|----------------|--------------------|------------------|
| 02 | 140/29.05.2014 | Annual license fee | 1,684,187 |
| TOTAL | | | 8,502,833 |

The fee was paid on the basis of provisional accounts as the annual accounts of NTC for the year 2012-13 were finalized till date. Furthermore, the financial statements for the year 2013-14 were also not finalized even after 3 months of closure of financial year i.e till 30th September, 2014. The payment of fee on the basis of provisional figures resulted into excess payment of fees to PTA.

The matter was reported in November 2014 and it was replied in December 2014 NTC has to make the payment of annual license fee up to 31st October each year. In case of failure for making payment within due date the authority would have levied the late payment fee. To avoid the late payment fee, the payment was made before 31st October. Whereas NTC accounts took long time for finalization, therefore payment is being made on the basis of provisional accounts. On finalization of Annual Audited Accounts, the same are forwarded to PTA and subsequent remaining payment if any is made on the basis of Annual Audited Accounts. As far as reconciliation with PTA, I&RA Directorate continuously pursue with PTA to settle the issue.

The reply was not tenable because reasons for non-finalization of the accounts year by year were not given in the reply. The delay resulted into provisional fee payment and also affects the remittance of surplus to the FCF.

DAC in its meeting held on 17th December, 2014 took serious notice and directed the management to finalize its financial statement at earliest. The signed financial statements be provide to Audit for verification.

Audit recommends the immediate compliance of DAC directives.

No further progress was reported till finalization of this Report.

(Based on PDP No125)

5.21 Loss of anticipated revenue to NTC due to hosting of websites by others - Rs 6.168 million

According to license issued to NTC by PTA, and section 41 of the Telecom Re- organization Act 1996, NTC has been authorized to provide telecom services to designated customers.

NTC was authorized for web hosting of Government web portal and provides hosting services to all the Government departments. NTC had hired the I.P Bandwidth from M/s Transworld and PTCL and making payment of Rs 2.206 million monthly with Rs 0.5 million per month to server 4 sale web hosting GoP portal abroad. An amount of Rs 16.708 million was paid as International Bandwidth Charges during 2013-14 as detailed below:

| S.No | Voucher No. & date | Name of Company | Amount (Rs) |
|--------------|-------------------------------|-------------------------------------|--------------------|
| 01 | 008/03.07.13 | M/s Transworld Associates Pvt. Ltd. | 116,620 |
| 02 | 067/10.10.13 | M/s Transworld Associates Pvt. Ltd. | 4,411,622 |
| 03 | 101/26.11.13 | M/s Transworld Associates Pvt. Ltd. | 6,748,240 |
| 04 | 030/13.01.14 | M/s Transworld Associates Pvt. Ltd. | 2,207,100 |
| 05 | 105/22.05.14 | M/s PTCL | 2,143,019 |
| 06 | 059/12.06.14 | M/s PTCL | 1,081,300 |
| TOTAL | | | 16,707,901 |

NTC is providing services to 107 Government websites and earning revenue of Rs 3 million per annum approximately i.e Rs. 28,037 per website (3,000,000/107). There were nearly 220 websites which were hosted by other service providers like Comsat and Nayatel. Due to this NTC was being deprived from the revenue of Rs 6.168 million per annum (220 x 28,037). Further, the provision of services by Comsat was not covered under the provisions of Act because Comsat Internet Services (CIS) was not a licensee of PTA and not authorized to provide telecom services. Moreover, the provision of services by CIS and other operators like Nayatel were

unsecured from Denial of Service (DOS) and Distributed Denial of Service (DDOS) attacks. NTC should have taken up the matter with PTA and other Government agencies for resolving the issue and transfer of clients to NTC.

The matter was reported in November 2014 and it was replied in December 2014 that NTC is pursuing actively with the Federal Government and all governmental organizations regarding webhosting and telecom services for NTC. The issue has already been acknowledged by the Federal Government and letter to all Federal Secretaries has been sent by the MoIT.

The reply was not tenable because as per Act NTC is providing services to its designated customers, therefore, non availing the services of NTC by the Federal Government departments without consent of the NTC was not justified.

DAC in its meeting held on 17th December, 2014 directed the management to provide the detail of the customers who did not avail the NTC service and take up the case with the concerned quarters for provision of services.

Audit recommends that the matter should be investigated and existing practice should be stopped and responsibility fixed on those who violated terms and conditions of the license.

No further progress was reported till finalization of this Report.

(Based on PDP No137)

5.22 Non inclusion of penalty clause resulted into non-imposition of penalty on delayed receipt of revenue – Rs 27.755 million

According to para 19 (i) (ix) & (x) of GFR Vol-I, the terms of a contract must be precise and definite and there must be no room for ambiguity or misconstruction therein. Provision must be made in contracts for safeguarding Government property entrusted to a contractor. When a

contract is likely to endure for a period of more than 5 years, it should wherever feasible, include a provision for an unconditional power of revocation or cancellation by Government at any time on the expiry of six months notice to that effect.

Test check of the interconnect agreements made with various operators revealed that NTC management did not keep in view the clauses of General Financial Rules as required in above Rules. As a test check it was found that invoices amounting to Rs 27.755 million were generated for collection of revenue by the NTC duly showing the due date of the receivables but the actual revenue was received with the delay of 3 to 6 months. NTC management neither includes the clause of penalty in the contract agreement/demand notices nor imposed any penalty for the delayed receipt of revenue in violation of the above. This showed least interest and loose internal control in the organization.

The matter was reported in November 2014 and it was replied in December 2014 that the imposition of penalty on delayed receipt of revenue is presumably understood for Interconnection agreements with CMOs, However its implementation in auxiliary functions, such as the lease agreements for Media / Co-location with different operators by NTC, where in the amount for the said services (Media / Co-location) are charged in advance on annually basis. Furthermore, the clause of late payment surcharge at the rate of KIBOR plus 2% on “**Each Party**” has also been provided in the Interconnect Agreements between NTC and other operators. As such the agreement is based on partnership for sharing the infrastructure where in fact the NTC infrastructure is limited to 67 cities, and therefore heavily dependent upon other operators for obliging its service throughout Pakistan. Therefore looking at the end result after calculation (applying late surcharge), NTC may have to otherwise bear, in the face KIBOR annually.

The reply was not acceptable as NTC is providing services to its designated customers as mandated in the act, therefore, assumption regarding equal treatment in the shape of KIBOR is not justified. The

revenue continuously received late 3 to 6 months and there is not penalty clause in the agreement for late payment which further resulted into delay receipt of revenue.

DAC in its meeting held on 17th December, 2014 advised the NTC management to review its interconnect agreements and penalty clause should be included for delay receipt of payments.

Audit recommends that the matter should be investigated and existing practice should be stopped and responsibility fixed for non-inclusion of penalty clauses.

No further progress was reported till finalization of this Report.

(Based on PDP No.136)

5.23 Irregular award of work and expenditure without tendering – Rs 68.663 million

According to Rule 4 of Public Procurement Rules 2004, 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 12 *ibid* states that procurements over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency.

NTC management issued a purchase order amounting to Rs 137.325 million for supply of installation, testing and commissioning of soft switches, firewalls & Ethernet switches under the frame agreement of TDM to IP on turnkey basis was issued to M/s Huwaei Technologies on 12.03.14. The work was awarded without inviting open tenders in violation of the

above. The following payments in this regard were made during 2013-14.

| S.No | Vr. No. & date | Description | Amount (Rs) |
|--------------|----------------|--|-------------------|
| 01 | 142/28.04.14 | 15% advance payment as per clause 8(a) of the PO | 20,598,853 |
| 02 | 168/27.06.14 | 35% payment on delivery of equipment | 48,063,991 |
| TOTAL | | | 68,662,844 |

Following observation was also made:

- (a) Para 11 of PO states that M/s Huwaei submit Provision Acceptance Test (PAT) documents within 15 days of signing of the PO i.e upto 27th March, 2014 whereas the same was submit on 29th August, 2014 with a considerable delay. NTC did not take any action regarding delay submission of the documents.
- (b) DE procurement directorate NTC HQ pointed out certain discrepancies on 24.06.2014 regarding separate earthing pit along with bus bar, separate breaker with AC DB, battery temperature sensor and PVC / G.I pipe. The said discrepancies neither taken up with the contractor nor any other action was taken.
- (c) According to para 14 of the PO contractor is responsible for arranging foreign and local trainings for 20 x officers. The record did not show any plan/arrangements/holding of trainings on the subject.

The matter was reported in November 2014 and it was replied in December 2014 that an earlier of 2013 contract was made through open tender and the same was a Frame Contract Agreement in which unit rates are defined and NTC may continue to issue purchase orders to M/s Huawei as per requirement covered in the floated tender BOQ as well as NTC new

ADP approved projects. In this frame agreement the unit rates are fixed for a period of 03 x years and further contract can be extended for a period of 05 years upon mutual agreement. Furthermore, as per clause 11 of P.O, M/s Huawei submitted PAT documents vide email dated 26-03-14 and the same was forwarded to N&SE department for approval. Regarding the discrepancies, the same was intimated to M/s Huawei and all these discrepancies have been rectified and subsequently NTC PAT Team will verify the same at the time of PAT. Foreign/Local Training, it is apprised that case has been processed in separate file for approval of candidate nominations and finalization of course material. The training will be conducted shortly once nomination/course out line is finalized.

The reply is misstated as the PAT documents were furnished on 26th August, 2014 and not on 26th March, 2014. No documentary evidence regarding removal of discrepancies was provided. The contract for being heavy amount therefore, competitive rates through open tendering should be carried out.

DAC in its meeting held on 17th December, 2014 directed for verification of all relevant record i.e PAT documents, removal of discrepancies and detail of foreign and local training.

It is recommended that expenditure be got regularized, responsibility for misstatement in the reply be fixed and detail of the foreign and local training may be provided.

No further progress was reported till finalization of this Report.

(Based on PDP No.124)

5.24 Irregular award of work and expenditure on procurement of OFC - Rs 5.756 million

According to Rule 4 of Public Procurement Rules 2004, 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 40 ***“Limitation on negotiations”*** Save as otherwise provided there shall be no negotiations with the bidder having submitted the lowest evaluated bid or with any other bidder.

Further, para 7 of the tender documents stipulates that the bidder shall be responsible to provide the samples of quoted store, which shall be as per standards mentioned in the technical specification.

A tender was opened on 11.06.2013 and the tender evaluation committee remarked that the samples provided by the contractors having less than 01 meter length which cannot be analyzed/tested. However, despite the technical observation the committee recommended to award the work to M/s Premier Cables being lowest for supply of optical fiber cables in violation of the above. The rates offered by two contractors on 11.06.2013 are as under:

| | | |
|----|-------------------------------------|--------------|
| 1. | M/s LT Engineering & Trade Services | Rs 7,244,107 |
| 2. | M/s Premier Cables Pvt. Ltd. | Rs 6,930,582 |

NTC management negotiated the prices with the lowest bidder in violation of the above and M/s Premier Cables revised the rates on 29.07.2013 which were named by the NTC as 1st voluntary discount. The contractor further revised the rates on 8.10.2013 after lapse of 5 months of opening of tender which were named by NTC as 2nd voluntary discount. Audit understands that the negotiation with the lowest contractor after opening of bids is the violation of the PPRs and is a favour to award the work to M/s Premier Cables as NTC did not provide any opportunity to 2nd lowest for revision of rates. Hence, the award of work and payment of Rs 5.756 million to the firm who had deficient of papers at the time of opening of bids and after negotiation stands irregular.

The matter was reported in November 2014 and it was replied in December 2014 that PPRA does not allow negotiations for reduction in rates / discounts during the process of bid evaluation to avoid any compromise on the position of bidders, however in the current case lowest evaluated bidder has been finalized thereafter the contractor has voluntarily offered discount to NTC. Moreover, another objective of procurement is to bring value for money while maintaining the quality, which is also not compromised in the current case as evident from the factory testing/inspection of the procured OFC. Furthermore, for reference an online query (ID=351) to PPRA of another organization and its reply from PPRA is also supportive the above statement.

The reply was misstated because the lowest evaluated bidder has the technical observations and deficient of papers at the time of opening of bids, therefore, the evaluation process was not fair. As regard to voluntarily discounts, NTC management asked for the reduction in rates which was a negotiation and not voluntarily discounts arising from exchange variation of US\$ & Pak rupee. Hence, the reference of on line query does not justify the response.

DAC in its meeting held on 17th December, 2014 directed the management to get the expenditure regularized from competent forum.

It is recommended that a fresh clarification in the instant case may be obtained from PPRA under intimation to Audit.

No further progress was reported till finalization of this Report.

(Based on PDP No.123)

5.25 Irregular expenditure on procurement of Magneto Optical Disk Drivers - Rs 3.285 million

According to Rule 26 (3) of Public Procurement Rules 2004, the procuring agency shall ordinarily be under an obligation to process and evaluate the bid within the stipulated bid validity period. However, under

exceptional circumstances and for reason to be recorded in writing, if an extension is considered necessary, all those who have submitted their bids shall be asked to extend their respective bid validity period. Such extension shall be for not more than the period equal to the period of the original bid validity.

NTC management floated tenders for procurement of Magneto Optical Disk Drivers (MODD) on 03.01.2013 and was opened on 06.02.2013. Tender documents bid validity period was 120 days from the date of opening of the bid. The purchase order was issued on 03.04.2014 after considerable delay but neither any reasons of delay was recorded anywhere in the record nor contractors were asked for extension of bid validity period in violation of the above. Therefore, expenditure amounting to Rs 3.285 million incurred vide voucher No.203 dated 30.06.2014 stands irregular.

The matter was reported in November 2014 and it was replied in December 2014 that after evaluation, Letter of Intent (LOI) was issued and the same was accepted by M/s Ibraheem Labbaik Enterprises on 30-05-13. Prior to issuance of purchase order, NTC (IT) directorate was asked to test the sample test drive. Unfortunately the testing was not carried out as the sample was required to be tested by placing in the existing drives software which took time and accordingly the Purchase Order was signed by the both parties on 03-04-14.

The reply was not tenable as how the letter of intent was issued before technical evaluation and testing. The issuance of purchase order with a delay of 15 months was the violation of PPRs and other terms and conditions. It is recommended that expenditure be got regularized from the competent forum.

DAC in its meeting held on 17th December, 2014 did not satisfy with the reply and directed the management to get the expenditure regularized from competent forum.

Audit recommends that matter should be investigated for fixing the responsibility for violation of the PPRs besides regularization of expenditure from competent forum.

No further progress was reported till finalization of this Report.

(Based on PDP No.122)

5.26 Irregular award of work by ignoring the lowest bidder and expenditure - Rs 4.747 million

According to Rule 4 of Public Procurement Rules 2004, 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. Further Rule 36 (a) Single stage – one envelope procedure states that Each bid shall comprise one single envelope containing, separately, financial proposal and technical proposal (if any). All bids received shall be opened and evaluated in the manner prescribed in the bidding document.

Further, para 7 of the tender documents stipulates that the bidder shall be responsible to provide the samples of quoted store, which shall be as per standards mentioned in the technical specification.

As a result of open tender NTC management opened the technical & financial bids on 04.11.2013 and the work was awarded to M/s Analytical Solution for supply of ADSL2 & Wi-Fi CPEs. The record revealed that M/s Omega was financially lowest and had no deficiency in tender document but NTC management technically disqualified the firm without any technical evaluation. However, M/s Analytical Solution had deficiencies of documents and the deficiencies were conveyed through E-Mail on 26.11.2013 but the work was awarded. The documents were provided by the firm along-with samples on 02.12.2013 after 3 months of the opening of the

bids which was in violation of the clause 10.3 of the tender documents. NTC management also negotiated with M/s Analytical Solution for discount who offered the discount of Rs 595,000 whereas M/s Omega Enterprises did not provide the opportunity of discount which was against the PPRs. Therefore, the award of work despite heavy financial variation, deficiencies of documents and payment of Rs 4.747 million made stands irregular. Rephrase

The matter was reported in November 2014 and it was replied in December 2014 that the tender floated was of single stage single envelope having technical specifications and BOQ with instructions to bidders to fill the financials on the BOQ documents. At the time of bid opening, M/s Analytical was intimated to provide samples and the same was also conveyed through email and accordingly it was provided. Furthermore, the affidavit was already in the bid documents at the time of bid submission. Regarding M/s Omega, it is apprised that M/s Omega did not comply the mandatory clauses (ADSL Specs Clause 3.2 & 9.2, WiFi Specs Clause 10.2) and hence was technically disqualified. It is further added that no negotiations were made with the qualified bidder and M/s Analytical Solutions offered the voluntary discount.

The reply was not acceptable as the firm M/s Analytical Solution has deficiency tender document and the same was provided after 3 months of opening of bids but the work was awarded which was against the rules and the terms and conditions of the tender documents. Further, the documents available in the file showed that no technical evaluation was made but the firm M/s Omega enterprises had rejected on technically grounds. "Rephrase"

DAC in its meeting held on 17th December, 2014 directed the management to make facts finding inquiry and submit report to the PAO.

Audit recommends that the matter be investigated and responsibility fixed on those who reject the first lowest bidder on false information.

Moreover, the loss be recovered from the persons held responsible.

No further progress was reported till finalization of this Report.

(Based on PDP No.121)

5.27 Irregular expenditure on procurement without tendering - Rs 7.377 million

According to Rule 12 of Public Procurement Rules 2004 procurements over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency.

NTC management incurred an expenditure of Rs 7.377 million on procurement of Zyflex spares, Universal Media Gateway (UMG) and GPON/Metro Ethernet spares during 2013-14. The procurement was made on single quotation basis by mentioning propriety item instead of inviting open tendering in violation of the above. It was further observed that negotiations with the firms were also carried out which was not allowed in the PPRs.

| S.No | Reference | Description | Name of Contractor | Amount (Rs) |
|--------------|--|---|----------------------------|------------------|
| 01 | (Proc-Dte)/ R&M/Zyflex/ spares/13-14 | Procurement of Zyflex Spares | M/s Synchom (Pvt) Ltd. | 997,889 |
| 02 | 106/19.12.2013 | 45% Payment on account of procurement of UMG | M/s Huwaie Technologies | 4,916,250 |
| 03 | 121/23.06.2014 | Procurement of GPON/Metro Ethernet Spares | M/s Huwaie Technologies | 1,463,202 |
| TOTAL | | | | 7,377,341 |

The matter was reported in November 2014 and it was replied in December 2014 that the procured spares are proprietary items and hence not required to be tendered. So the quotation was sought from the firms being authorized sole distributors. The rates have compared with previous purchases and found that the prices were on higher side. Therefore, being proprietary items firms were asked to rationalize the prices and accordingly discounts have been obtained.

The reply was not acceptable as the procured spares were not of the propriety items and award the work without tendering.

DAC in its meeting held on 17th December, 2014 advised the management to get the expenditure regularized and stop this practice in future.

Audit recommends that the matter be investigated and responsibility fixed on those who violate the PPRs and award the work without tendering.

No further progress was reported till finalization of this Report.

(Based on PDP No.119)

5.28 Irregular refund of liquidated damages - Rs 1.880 million

According to amendment-IV issued on 18.10.2012, contractor was required to complete the work up to 20.10.2012. The contractor completed the project with the delay of more than 05 months. Therefore, maximum LD charges i.e 10% will be imposed. Accordingly NTC management deducted the LD charges amounting to Rs 1,879,630 and the payment was made on 14.06.2013.

The contractor M/s Real Solution applied for waiver of LD charges on 05.09.2013 by claiming that work was completed within the scheduled time. NTC management processed the case for refund of LD charges in May 2014 with a delay of one year with the proposal for ex-post facto

extension of 73 days in the contract. The said proposal was against the contractual obligations and all financial rules. The refund of the LD charges was approved by the Chairman NTC on 28th May, 2014 with the recommendation to take disciplinary action against the irresponsible behavior and non-professional approach.

The proposal regarding ex-post facto approval of extension of 73 days clearly stated that the work was delayed and LD of Rs 1.880 million was deducted correctly but later on the same was refunded to the contractor irregularly.

The matter was reported in November 2014 and it was replied in December 2014 that as per contract maximum of 10% LD charges were imposed at the time of PAC payment. However, the same was waived off and returned after the approval of the competent authority (Chairman NTC) due to delay on part of NTC. The delay identified was not on part of the M/s Real Solution rather it was delayed due to non-provision of aggregation switch in time and non-provision of media to be hired from PTCL by NTC. In this regard, after contributing this delay on NTC, 73 days ex-post facto approval was accorded by the competent authority and hence the LD charges were waived off after meeting the codal formalities and thorough analysis by NTC committee.

The reply was not correct as LD was deducted rightly according to the provisions of the contract agreement. However, the refund of LD later on with a delay on one year clearly showed favour to the contractor. Further, at the time of approving refund the Chairman NTC asked for disciplinary action against the irresponsible behavior and non-professional approach which has not taken.

DAC in its meeting held on 17th December, 2014 directed the NTC management to stop the practice of refund of LD charges in future. Disciplinary action as recommended by the chairman NTC be got verified from Audit.

Audit recommended for immediate compliance of the DAC directives.

No further progress was reported till finalization of this Report.

(Based on PDP No.120)

5.29 Delayed deposit of cheques amounting to Rs 28.576 million

According to para 7 of NTC approved accounting procedure all receipts including telephone revenue and payment in lieu of leased / speech circuits should be deposited in the Revenue Account of the fund. The cheques, Bank Drafts, pay orders etc. shall be deposited in the revenue account within 24 hours of receipts.

NTC management did not maintain the cheque register however the record provided by the Revenue Wing showed that the cheques amounting to Rs 28.576 million were deposited with the delay of ten (10) to fifty eight (58) days in fifteen (15) cases only.

The matter was reported in November 2014 and it was replied in December 2014 that the cheques were timely deposited. The delays were calculated by matching the date of cheques instead of their date of receipt in NTC.

The reply was not acceptable because no cheque register was maintained. However, revenue invoices showed the delayed deposit of cheques.

DAC in its meeting held on 17th December, 2014 directed to maintain the cheque register duly showing receipt and deposit of the cheques. Relevant record as mentioned in the reply be got verified from Audit.

Audit recommended that responsibility should be fixed for non-maintenance of cheque register and delay in deposit of cheques.

No further progress was reported till finalization of this Report.

(Based on PDP No.139)

5.30 Unjustified clause of discount in the Tariff Manual

According to para 19 (iv) of GFR Vol-I, the terms of a contract once entered into should not be materially varied without the previous consent of the authority competent to enter into the contract as so varied No payments to contractors by way of compensation or otherwise outside the strict terms of the contract or in excess of the contract rates may be authorized without the previous approval of the Ministry of Finance.

NTC management included a clause of Bulk Discounts in chapter 4 of tariff manual on 1st August, 2010 in violation of the Financial Rules as stated above. NTC is a Government Owned Corporation and there is no justification for granting of discounts on the fees already settled through an interconnect agreements. However, it was further observed that NTC through its invoice did not include the discounts but during discussion it came to notice that in current year the discounts are given to the operators as per Tariff Manual. Audit is of the view that if no discounts have been given previously, the operator can claim it or go to litigation on the subject. Therefore, it is recommended that NTC management should review these clauses of discounts to avoid any future complications.

The matter was reported in November 2014 and it was replied in December 2014 that NTC tariff is formulated by taking into account market competitiveness & organization's own interests among other factors. Once tariff is formulated it is approved by NTC Management Board before notification / circulation as per the provisions given in its License. The tariff is solely a prerogative of NTC and needs no consent from any other Telco

while it is formulated. NTC is a corporation with clear mandate of serving the Government of Pakistan from its own resources. The license of all telecom operators (including NTC) are based on non-exclusive basis creating a competitive level playing field. The bulk discount clauses were introduced keeping in view the market practice by other operators of negotiating rates while offering telecom services.

The reply is misleading, therefore, not acceptable. NTC providing services to its designated customers which is mandatory in light of Act, instruction issued by the MoIT and Cabinet Division, therefore, the plea of competition and level playing field is not correct.

DAC in its meeting held on 17th December, 2014 advised NTC management to review its tariff manual. The decision of the PTA dated 3rd January, 2014 may be referred back through MoIT for its review by the PTA Authority.

Audit recommends immediate compliance of the DAC directives.

No further progress was reported till finalization of this Report.

(Based on PDP No.142)

5.31 Non deposit of surplus into Federal Consolidated Fund – Rs 287.439 million

According to section 41(9) of Pakistan Telecommunication (Re-organization) Act, 1996, any surplus of receipts over actual expenditure in a year shall be remitted to Federal Consolidated Fund and any deficit from actual expenditure shall be made up by the Federal Government.

Statement of bank balances showed that an amount of Rs 287.439 million was lying in the bank account NIDA 1-3 as on June 30, 2014. NTC management did not deposit the surplus amount into the Federal Consolidated Fund (FCF) till the last date of Audit i.e 20th October, 2014.

The matter was reported in November 2014 and it was replied in December 2014 that if any surplus is determined, after appropriation as per Annexure-C (3) to the S.R.O No. 171(i)/99 dated 8th February, 1999, further amendment has also been made with the approval of Auditor General of Pakistan, will be remitted to Federal Consolidated fund, if not appropriated for next financial year. Budgetary Estimates 2014-15 illustrate that the Corporation is in deficit in the F.Y. 2014-15.

The reply is misleading therefore, not acceptable. Act requires that any surplus of receipts over actual expenditure in a year shall be remitted to Federal Consolidated Fund whereas NTC deliberately delayed the finalization of accounts and approval of budget due to which Government deprived off from the surplus funds. NTC management usually reflects high figures at the time of approval of budget which also reflects understatement of surplus payable to GoP.

DAC in its meeting held on 17th December, 2014 directed the management to provide the details of remittance of surplus to the FCF for verification by Audit.

Audit recommends that issue may be investigated at PAO level for facts finding under intimation to Audit.

No further progress was reported till finalization of this Report.

(Based on PDP No.140)

5.32 **Unauthorized payment of current charge pay – Rs 233,200**

According to Sl.No.122-A(2) the current charge arrangement is a temporary measure pending appointment of a person on regular basis in the prescribed manner. Six month is considered a sufficiently long period for the purpose of filling of posts on regular basis and, there should, normally be no occasion or necessity, for seeking extension of current charge

arrangement beyond six months. Extension of current charge beyond six months requires prior consultation with the Finance Division before seeking the orders of the competent appointing authority prescribed in rule 6 of the Civil Servants (Appointment, Promotion & Transfer) Rules, 1973. Further, extension in current charge appointment against B-20 (MG-II) and above beyond 6 months shall be sanctioned by the Prime Minister as stated in Establishment Division O.M No.1/21/76-AR-1 dated 06.04.1987. Para 2.18 of NTC Employees Service Regulations 2008 states that the current charge of the post may, with the approval of the Chairman, be given temporarily, in addition to the duties of his own post, to the most senior officer.

NTC management makes current charge appointments beyond six months duration and by ignoring the senior most officers in violation of the above. This resulted into irregular appointment and current charge pay to the extent of Rs 233,200. Detail is as under:

| S.No | Particulars | Period | Amount (Rs) |
|--------------|-------------------------|----------------------------|----------------|
| 01 | Director General (Tech) | 28.03.2014 to 30.10.2014* | 42,000 |
| 02 | Director General (Fin) | 21.03.2013 to 30.10.2014* | 114,000 |
| 03 | General Manager (North) | 20.06.2014 till date | 24,000 |
| 04 | Divisional Engineer | 09.05.2012 to 05.02.2013** | 53,200 |
| TOTAL | | | 233,200 |

* The last date of completion of Audit

** The officer had given look after but subsequently paid current charge pay

As regard to Sl.No.04 above, a Divisional Engineer was allowed looking after the duties of Director NTC Quetta w.e.f 09.05.2012. The officer applied for grant of current charge allowance on 10.10.12 but the request was not acceded too by the then NTC management. However, later on the case for grant of charge allowance was initiated by the HR department on 22.03.2013 and Chairman NTC approved the grant of current

charge allowance w.e.f of 09.05.2012 to 05.02.2013. The approval of charge allowance against look after stands unauthorized.

The current charge arrangement for a long time on such important key posts and charge allowance against look after and beyond six months is the violation of Rules / Regulations. This showed weak internal controls in the organization.

The matter was reported in November 2014 and it was replied in December 2014 that in terms of rule No. 2.18 of NTC Service Regulations there is no limitation of period for grant of current charge. In order to fill the gap and to run the affairs of NTC Quetta Directorate, Mr. Muhammad Ammar Jaffar, DE (Phones) NTC Quetta was allowed to look-after the duties of Director NTC Quetta in addition to his own duties. In view of above, Mr. Muhammad Ammar Jaffar, DE Phones NTC Quetta was granted current charge allowance for holding charge of the post of Director NTC Quetta from 09-05-2012 to 05-02-2013 after approval of competent authority, in terms of rule No. 2.18 read with rule No.3.3(v) of NTC Service Regulations.

The reply was not justified. The grant of current charge beyond six months without approval of the competent authority stands un-authorized. Furthermore, the current charge for a long time on such key posts resulted into deficient decision making. Moreover, payment of charge allowance against the grant of look after also not justified.

DAC in its meeting held on 17th December, 2014 took serious notice for grant of current charge beyond 6 months and directed the management to stop this practice besides regularization of the expenditure. In case of non regularization recovery of the amount be made.

Audit recommends that the grant of current charge and payment on this account be got regularized and in case of non-regularization the amount

of current charge allowance may be recovered.

No further progress was reported till finalization of this Report.

(Based on PDP No.129)

5.33 **Un-authorized change of nomenclature and re-designation of posts in the approved organogram**

According to Schedule-I of NTC Employees Service Regulations 2008 duly approved by the Finance Division vide O.M No.3(8)/R-14/07-438 dated 17th June, 2008 and Establishment Division O.M No.4/3/91-R.3 dated 22nd March, 2008 and gazette notified on 5th July, 2008 the posts of Chief Operating Officer (COO), Chief Technical Officer (CTO) and Chief Financial Officer (CFO) are exists and the approved organogram was implemented in NTC.

Organization Charts and other relevant record showed that NTC had changed the approved nomenclature of posts without prior approval of the Finance and Establishment Division after clearance from the Ministry of Interior in violation of the above. This resulted into irregular appointment/promotions on the subject posts. It was further observed that delegation of powers (DOP) was also revised and approved in the light gazette notification but was not implemented so far. Detail of the posts is as under:

| S.No | Approved nomenclature | Changed / re-designated |
|-------------|-------------------------------|--------------------------------|
| 01 | Chief Operating Officer (COO) | Director General (Operations) |
| 02 | Chief Technical Officer (CTO) | Director General (Technical) |
| 03 | Chief Financial Officer (CFO) | Director General (Finance) |

The change in nomenclature / re-designation and non-implementation of approved DOP showed that the management was totally violating the rules and did not ready to abide by the rules. Due to this gross

violation, the management had misused its powers regarding change in nomenclature of the posts without the approval of the competent authority.

The matter was reported in November 2014 and it was replied in December 2014 that NTC Service Regulations were approved from Establishment Division and Finance Division and were notified by Ministry of Information Technology and subsequently published through SRO dated 02-08-2008. Under Rule No.3.2 the designations against each category was approved by the Finance Division. All the designations prior to 05-07-2008 were stand discontinued. Under Sr.No.20 of Rule No.3.2, the designations in MG-II were approved as Chief Engineer, Chief Information Officer, General Manager, Chief Technology Officer, Chief Finance Officer. NTC Management Board in its meeting held on 03-04-2012 approved re-designation of the post of Chief Technology Officer, Chief Operating Officer and Chief Finance Officer as DG (Technical), DG (Operations) & DG (Finance) respectively. The re-designation was made on instant discussion and thorough deliberations on nomenclature in the said board meeting. The matter has been referred to the Board and is under consideration for re-naming these posts.

The reply was not acceptable because the NTC had changed the approved setup without prior approval of the competent forum.

DAC in its meeting held on 17th December, 2014 took serious notice and directed the management to take up the case with the Government for approval of the re-designation of posts and stop this illegal practice in future.

Audit recommends that matter should be investigated and responsibility be fixed for violation of the approved Employees Service Regulations and deviation from the already approved setup.

No further progress was reported till finalization of this Report.

(Based on PDP No.145)

5.34 **Irregular opening and operating of bank accounts**

According to Sl. No. 21 & 22 of Annexure–A attached with NTC Accounting procedure notified vide SRO 171(1)/99 dated 8-2-1999, Member (F) is fully empowered for opening & operation of bank accounts.

NTC continued the practice of opening of the bank accounts with the concurrence of Director General (Finance) despite pointing out in previous Audit Reports. The Director General (Finance) was not authorized for the subject job. Therefore, all opening of bank accounts and operation with the approval other than Member (F) were invalid and the transactions made on account of expenditure, transfer of funds to regions and investments made were invalid.

The matter was reported in November 2014 and it was replied in December 2014 that on change of designation from Member (Finance) to CFO and then DG (Finance) the job description of the post remained the same. Therefore the exercise of powers of the post of Member (Finance) rests with DG (Finance).

DAC in its meeting held on 17th December, 2014 took serious notice and directed the management to take the case with the Government for approval of the re-designation of posts and stop this illegal practice in future.

Audit recommends that matter should be investigated with a view to fix responsibility for violation of approved accounting procedure.

No further progress was reported till finalization of this Report.

(Based on PDP No.144)

5.35 **Ill performance of Assistant Divisional Engineers (ADEs)**

According to Regulation 2.19 to 2.24 of NTC Employees Service Regulations the criteria required for promotions i.e (Length of Service,

Training Courses, Seniority, Evaluation formula and interviews) has been laid down. The basic criteria are seniority-cum-fitness.

NTC management conducted the pre-promotion interviews on 12th September, 2013 for promotion of ADEs to DEs. The interview committee consists of DG (Operation), GM (Admn & HR) and Director (N&SE). A candidate name Mr. Zafarullah Jamali, ADE was appeared before the interview committee and only secured 5 marks. All the members did not recommend the candidate for promotion. Director (N&SE) gives the remarks *“the candidate does not have technical knowledge and is deplorable that after 5 years he is very weak”*. But the officer had given Very Good and Good Annual Confidential Reports (ACR) which has also acknowledged the countersigned. Audit could not understand how the ACRs of the officer have been written as very good and good being no technical knowledge.

It was noted that the candidate having qualification of BE (Telecom) was appointed as ADE on 23rd April, 2007 and after having sufficient time period of 6 years the candidate have no technical knowledge is a question mark on his appointment. The candidate have worked as ADE Larkana, ADE Tx(UHF) and ADE Clifton which are very important sector of NTC. Audit could not understand that if the candidate has no technical knowledge then how he is working as ADE.

The matter was reported in November 2014 and it was replied in December 2014 that as per Schedule-II of NTC Service Regulations, serving Assistant Divisional Engineers are eligible for promotion to the post of Divisional Engineers (Group-VIII) on seniority-cum-fitness basis subject to qualifying pre-promotion interview mandatory under Rule No. 2.24 of NTC. In order to ascertain suitability of the officer to the post of Divisional Engineer, Mr. Zafarullah Jamali, ADE NTC Karachi was called for interview on 12-09-2013 where he could not qualify interview. Hence he could not considered for promotion to the post of DE which shows NTC

Management grants promotion strictly on merit in accordance with the rules and regulations. As far as rating in PER of the officer is concerned, It is submitted that officer performing his duties in the capacity of Assistant divisional Engineer upto entire satisfaction of his reporting as well as his countersigning officer.

The reply was misleading therefore not acceptable. How the candidates were appointed as ADEs who have no technical knowledge.

DAC in its meeting held on 17th December, 2014 directed for facts finding inquiry and its verification from Audit.

Audit recommends that matter regarding appointment and promotion be investigated at appropriate level for facts finding and fixation of responsibility.

No further progress was reported till finalization of this Report.

(Based on PDP No.147)

5.36 Unauthorized grant of EOL and Ex-Pakistan Leave

According to policy guidelines issued by NTC Headquarter dated 30th August, 2010 Extra Ordinary Leave (EOL) may be granted up to a maximum period of 1095 days (three years), once in the service, provided that the employee(s) has been in continuous service for a period not less than ten years.

Furthermore, Rule 9 of revised Leave Rules 1980 notified vide SRO 1313(1)/80 dated 20.12.1980, further states that EOL without pay may be granted on any ground upto a maximum period of 05 years at a time provided that the civil servant to whom such leave is granted has been in continuous service for a period of not less than 10 years.

NTC management granted EOLs (Ex-Pakistan Leave) frequently to its employees in violation of the above. The employees has also availed

earned leave and leave on half pay despite having a 5 to 7 years service. In one case the Chairman NTC approved the conversion of leave into maternity leave at a belated stage which showed undue favour. Detail is given in the attached Annex.

The matter was reported in November 2014 and it was replied in December 2014 that Mrs. Tarranum Hamid was allowed leave on half pay from 18-06-2006 to 27-08-2007 (436 days) and 03-03-2013 to 30-10-2013 (242 days) as admissible under rule 6 of leave rules 1980. She was sanctioned (ex-post facto) maternity leave as admissible under the rules. However, while sanctioning the same all rules under the head of account (maternity leave) were followed. As regard grant of EOL from 28-08-2007 to 19-03-2008 (205 days) and 31-10-2013 to 29-10-2017 (1460 days) is concerned, the official has been granted EOL on completion of 10 years qualifying service, as admissible under the rules. As regard grant of leaves to Mrs. Farzeen Sehar, ADE is concerned it is stated that at each incident she has less than 10 years service and has been granted maximum 02 years leave at the discretion of Chairman NTC as provided under the rules.

The reply was not acceptable being statement of facts. Detailed reply in the light of original observation and attached Annex may be furnished to proceed further in the matter.

DAC in its meeting held on 17th December, 2014 directed for facts finding inquiry and its verification from Audit.

Audit recommends that regarding appointment and promotion be investigated at appropriate level for facts finding and fixation of responsibility.

No further progress was reported till finalization of this Report.

(Based on PDP No.146)

CHAPTER-6

SPECIAL COMMUNICATIONS ORGANIZATION

6. SPECIAL COMMUNICATIONS ORGANIZATION (SCO)

6.1 Introduction

Special Communication Organization was established in July 1976 for the operation, expansion, maintenance and modernization of telecom system in Gilgit Biltistan including Azad Jammu and Kashmir. It is managed by a Project Board under the Chairmanship of Signal Officer in Chief (Army). Its administrative control is with Ministry of Information Technology (MoIT).

DG SCO exercises administrative and financial powers given in Financial Budgeting Accounting and Audit (FBA&A) procedure as approved by the Project Management Board. Its accounts are maintained on the accounting system of erstwhile T&T department. CMA (FWO) is responsible for pre-audit and reconciliation of the expenditure of SCO with AGPR.

6.2 Comments on Budget and Accounts

SCO management did not provide the receipt and expenditure accounts till the finalization of the report despite continuous pursuance by audit. Hence, no comments on accounts could be offered.

6.3 Status of Compliance with PAC Directives

SCO, Ministry of Information Technology

Following table shows the compliance status of PAC directives.

| S. No | Audit Year | Total Paras | Total Directives | Compliance | | %age |
|-------|------------|-------------|------------------|------------|--------------|------|
| | | | | Received | Not received | |
| 01 | 1992-93 | 22 | 22 | 18 | 4 | 82 |
| 02 | 1996-97 | 0 | 0 | 0 | 0 | 0 |
| 03 | 1997-98 | 04 | 04 | 04 | 0 | 100 |
| 04 | 1999-00 | 7 | 7 | 2 | 5 | 29 |
| 05 | 2000-01 | 5 | 5 | 3 | 2 | 60 |
| 06 | 2001-02 | 05 | 05 | 4 | 1 | 80 |
| 07 | 2005-06 | 9 | 9 | 3 | 6 | 33 |
| 08 | 2008-09 | 14 | 14 | 04 | 10 | 28 |

AUDIT PARAS

6.4 **Irregular expenditure in excess over the budget allotment under head Establishment Charges – Rs 106.652 million**

According to Para 5 (b) of System of Financial Control and Budgeting, 2006, expenditure in excess of the amount of grant unless regularized by a supplementary grant shall be treated unauthorized. Moreover, as per Rule 88 of GFR Vol I, the authority administering a grant is ultimately responsible for watching the progress of expenditure on public service under its control and for keeping the expenditure within the grant.

Contrary to the above, it was observed that SCO management incurred an expenditure of Rs 1,435.844 million on account of Establishment Charges during financial year 2013-14 whereas budget allocation under this head was Rs 1,329.192 million. Therefore excess expenditure of Rs 106,652,000 was held irregular because it was not got regularized by obtaining additional funds in form of supplementary grant.

The matter was reported in October 2014 and it was replied in December 2014 that case for supplementary grant to meet the shortfall of funds under ERE amounting to Rs 123.407 million was referred to Finance Division during April, 2014. In response Finance Division had asked some information which was provided. However, formal concurrence of the case is awaited.

DAC in its meeting held on 17th December, 2014 directed the management to get the expenditure regularized from Finance Division and report be submitted to the PAO and Audit.

Audit recommends that the excess expenditure over budget allocation be got regularized from Finance Division under report to audit.

No further progress was reported till finalization of this Report.

(Based on PDP No.94)

6.5 Irregular expenditure on procurement without pre-qualification - Rs 59.997 million

According to Rule 15 of Public Procurement Rules 2004, a procuring agency, prior to the floating of tenders, invitation to proposals or offers in procurement proceedings, may engage in pre-qualification of bidders in case of services, civil works, turnkey projects and in case of procurement of expensive and technically complex equipment to ensure that only technically and financially capable firms having adequate managerial capability are invited to submit bids. Such pre-qualification shall solely be based upon the ability of the interested parties to perform that particular work satisfactorily.

Director General SCO made procurement of signal store and other equipment amounting to Rs 59.997 million during 2013-14. The items procured were technical in nature and expensive as well therefore the technical scrutiny of firms was necessary in form of pre-qualification before inviting bids which was not done. Therefore, the expenditure incurred on this account was held irregular. The detail is as under:

| S. No | File No | Description | Supplier | Amount (Rs) |
|--------------|-----------------------------|---|------------------------------|--------------------|
| 01 | 1893/Dev/sig/ 13-14/OS | Ae Cable 0.5mm and UG Cable 0.6mm | Flash Communications | 14,736,150 |
| 02 | 1892/Dev/sig/ 13-14/OS/A | Drop Wire & UY Connectors | Khalid Enterprises | 11,988,000 |
| 03 | 1894/Dev/sig/ 13-14/OS/ | OFC 12 Fibers | Premier Cables (Pvt) Ltd. | 14,771,750 |
| 04 | 1893/Dev/sig/ 13-14/OS/A | UG Cable 0.6mm Jelly Filled Armd | -do- | 988,930 |
| 05 | 1896/Dev/sig/ 13-14/OS/ | Drop Wire | Khalid Enterprises | 1,783,200 |

| | | | | |
|--------------|----------------------|--|-------------------------------|-------------------|
| 06 | 82/R&M/GS&C/13-14/OS | Diesel Generator, Sound Proof Canopy and ATS Panel | Log. Mate | 3,235,050 |
| 07 | 1727/Q/MT/GS&C/OS | Tyres, tubes & flappers | General Tyre & Rubber Company | 2,223,385 |
| 08 | 71/TXMN/Sig/13-14/OS | Signal Path-201 for VSAT Hub | Supernet Limited | 2,231,770 |
| 09 | 27/GSM/Sig/13-14/OS | Misc. Items | Leopard Tech (Pvt) Limited | 3,577,241 |
| 10 | 85/R&M/GS&C/13-14 | Step-up Transformer | LogMate | 4,462,000 |
| Total | | | | 59,997,476 |

The matter was reported in October 2014 and it was replied in December 2014 that the highlighted contracts were made through open tender and the participated firms were technically evaluated during the technical evaluation, further more majority of the firms highlighted in objection are manufacturer of the equipment stores and has an elaborated manufacturing facilities of their own which have been visited by technical representative of this organization a number of times, thus confirming their technical and financial capabilities. As technical and financial capabilities of the firm are well known therefore, pre qualification of the bidder was not adopted.

The reply was not acceptable because the pre-qualification of the contractors was not made as required in PPRs 2004.

DAC in its meeting held on 17th December, 2014 directed the management for re-verification of record regarding pre-qualification within 15 days and report be submitted to PAO.

Audit recommends immediate compliance of the DAC directives.

No further progress was reported till finalization of this Report.

(Based on PDP No.95)

6.6 Unauthorized deduction of withholding tax by telecom operators - Rs 23.902 million

According to Section 49 (1) (3) of Income Tax Ordinance 2001, the income of the Federal Government shall be exempted from tax under this Ordinance. Any payment received by the Federal Government, a Provincial Government or a Local Government shall not be liable to any collection or deduction of advance tax.

SCO management issued Demand Note / invoices to telecom operators on account of provision of Media, DPLC, VIM, Co-location facility and CPP charges. The operators made payment against these invoices after deducting withholding tax of Rs 23,902,424. The deduction of withholding tax was un-authorized being contrary to the above rule.

The matter was reported in October 2014 and it was replied in December 2014 that in all above cases that according to Section 49 (2) read with section 49 (4) of Income Tax Ordinance 2001, SCO's income is not exempt from deduction of Withholding Tax.

The reply was not accepted because the income of SCO was the income of Federal Government and did not cover under section referred above which states that exemption under this section shall not be available in the case of corporation, company, a regulatory authority, a development authority, other body or institution established by or under a Federal law or a Provincial law or an existing law or a corporation, company, a regulatory authority or other body or institution setup, owned and controlled, either directly or indirectly by the Federal Government or Provincial Government.

DAC in its meeting held on 17th December, 2014 directed that matter should be taken up with the FBR by the SCO management as per section

49(1) (3) and report submit to the PAO within one month.

Audit recommends immediate compliance of the DAC directives.

No further progress was reported till finalization of this Report.

(Based on PDP No.100)

6.7 Non / less recovery of DPLC and Co-Location Charges Rs 4.573 million and Penalty Rs 195,818

According to Para 2.6 & 2.7 of schedule 4-leasing of Domestic Private Leased Circuits (DPLC) contained in the SCO Reference Interconnect Offer Agreement (RIO), DPLC will be acquired for minimum period of one (1) year, for which the operator shall pay one year rental in advance to SCO. The advance rent shall be paid to SCO as soon as possible after the expiry of the first year, but not later than 15 days of such expiry, failing which SCO has a right to suspend the service in accordance with this interconnection agreement. Para 3.3 of schedule 5-Co-location further states that operator shall pay SCO the charges for Co-location in accordance with schedule 6.

Moreover, Rule 26 of GFR Vol-I stipulates that it is the duty of the Departmental Controlling Officer to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the Public Account.

In violation of above rule, it was observed that an amount of Rs 4.573 million was recoverable from M/s PTCL and CM Pak on account of DPLC and Co-Location charges. Further, penalty @ 5% amounting to Rs 195,818 was also due on this outstanding amount which was not imposed and recovered. Moreover, this outstanding amount was also not depicted as receivable in revenue statement.

The matter was reported in October 2014 and it was replied in December 2014 that due to change of PTCL office set up it was not clear

that which PTCL office will verify the invoices and release the payment. As SCO was not in receipt of payment since 2010, therefore combine invoice from July 2010 to June 2014 amounting Rs 17.005 was issued on 9th October 2013. PTCL's concerned department raised observation about excess amount against the invoices for the year 2013-14 (Mirpur & GB). Therefore, invoices for the year 2013-14 amounting to Rs 4.496 (M) were again issued on 17th March, 2014. PTCL has released the payment till 2012-13 and payment for the year i.e 4.496 million is awaited instead of Rs 3.916 million. In case of less realization, it was replied that the amount could not be invoiced due to oversight; however, the same shall be billed to CM Pak (Zong) in next invoice.

The reply was not acceptable because amount was not recovered in accordance with terms and conditions of RIO and penalty @ 5% was also not imposed and recovered for late payment.

DAC in its meeting held on 17th December 2014 directed the management to recover the amount as pointed out and get it verified from Audit.

Audit recommends that outstanding amount of DPLC and Co-location charges along with penalty & less recovery be got recovered and get it verified by audit.

No further progress was reported till finalization of this Report.

(Based on PDP Nos.101,106)

6.8 Loss due to non imposition and recovery of penalty from operators due to weak financial management - Rs 10.331 million

According to Para 2.6 & 2.7 of Schedule 4 contained in the SCO Reference Interconnect Offer Agreement (RIO), DPLC will be acquired for minimum period of one (1) year, for which the operator shall pay one year rental in advance to SCO. Where the DPLC is acquired for more than one

(1) year, the operator shall pay advance rent for next period to SCO. The advance rent shall be paid to SCO as soon as possible after the expiry of first year, but not later than fifteen (15) days of such expiry, failing which SCO has a right to suspend the service in accordance with this Interconnection Agreement. As per Para 13.1 of schedule 6 further stipulates that each party shall be liable to make payment of late payment charges to the other party or in the Escrow account, as the case may be, @ KIBOR plus 5% per annum for payment made after the due date for the period of delay.

Contrary to the above, SCO management issued Demand Notes on account of Domestic Private Leased Circuits (DPLC) and Co-location charges but did not impose and recover the penalty of Rs 10.331 million from the operators for late payment. Non imposition of late payment charges indicates un-due favour to operators and weak financial management. Detail is as under:

| S. No | Name of Operator | Period | Payment Date | Amount (Rs) | Penalty @ 5% (Rs) |
|-------|------------------|----------------------|--------------|--------------|-------------------|
| 01 | M/s Telenor | 25.01.13 to 24.01.14 | 06.03.14 | 25,102,782 | 1,255,139 |
| 02 | M/s Ufone | 01.07.13 to 30.06.14 | 25.02.14 | 21,437,672 | 1,071,884 |
| 03 | M/s CM Pak | 03.09.13 to 02.09.14 | 16.05.14 | 55,112,392 | 2,755,620 |
| 04 | M/s CM Pak | 01.07.13 to 30.06.14 | 16.01.14 | 104,972,837 | 5,248,642 |
| | | | | TOTAL | 10,331,285 |

The matter was reported in October 2014 and it was replied in December 2014 that one year advance payment is not charged on financial year basis instead of that it is calculated from the date of issue of advice. Moreover, invoices are billed for release of payment for next year and operators release the payments in advance, but not within 15 days as per

RIO due to their financial constraints. There is no doubt that PTCL release the payment late but para 13.1 of RIO is not applicable as in case payment is not received then it is assumed to be bad debts. Moreover, if SCO claims late payment charges from operators then the other operators shall also claim the penalty charges for their services in use with SCO as per their RIOs. In case of claim of late payment, it will be difficult for SCO to pay the said charges.

The replies itself speak that violation of the RIO was committed by the SCO. The justification given in replies was not accepted because penalty was not imposed and recovered in accordance with provisions of RIO.

DAC in its meeting held on 17th December 2014 directed the management to take up the case with the concerned for recovery. It was further directed that if SCO face difficulties, then the clauses of the RIO be got amended from competent forum for future.

Audit recommends that responsibility should be fixed besides recovery of penalty from operators.

No further progress was reported till finalization of this Report.

(Based on PDP No.102)

6.9 Non transfer of SCO revenue collected through PPO to designated bank account - Rs 147.803 million

According to HQ SCO letter No.1230/SCO/Ops/Rev/Tfr dated 8th May, 2012, it was directed that existing agreements with all banks to be revised for transfer of revenue to Headquarter SCO account Rawalpindi w.e.f July, 2012 onwards. The contract agreements with PPO Department (GPOs)) should also be revised for transfer of amount into AOTR designated account at respective location instead of PPO Lahore. The amount collected so will be further transferred to Headquarter SCO Revenue account at Rawalpindi.

In violation of the above, the contract agreement with PPO Department was not revised as per standing orders of DG SCO and an amount of Rs 147.803 million collected by five (8) GPOs under the jurisdiction of AOTR Muzaffarabad & Mirpur during 2013-14. The revenue collected on behalf of the SCO was transferred to Director of Accounts (PPO), Lahore instead of National Bank of Pakistan, Muzaffarabad, Mirpur & Rawalpindi in violation of the above.

The matter was reported in November 2014 and it was replied in December 2014 that GPOs did not agree to revise the agreement without approval of DG PPO.

The reply was not acceptable as the orders of delinking of transfer of revenue of PPO were issued in May 2012 but not complied and revenue is deposited to Pakistan Post Office Department keeping the amount outside the Federal Consolidated Fund.

DAC in its meeting held on 17th December, 2014 directed the management to take up the case with GPO/Dy PMG at Ministerial level for transfer of revenue to National Bank of Pakistan instead of DA PPO, Lahore.

Audit recommends that matter should be taken up with DG PPO for transfer of collected amount to the designated National Bank at Rawalpindi.

No further progress was reported till finalization of this Report.

(Based on PDP Nos.157,164)

6.10 Non recovery of outstanding dues - Rs 1.342 million

According to Standing Operating Procedure of disconnection of telephones circulated vide SCO HQ letter No 1241/SCO/OPS/R dated 22-10-2007, if private subscriber fails to deposit the telephone bill within due date, his/her telephone will be converted into one way and after expiry of 30 days, the disconnection will be ensured by the Revenue Office.

Rule 28 of GFR Vol-I further provides that no amount due to Government should be left outstanding without sufficient reason, and where any dues appear to be irrecoverable the orders of competent authority for their adjustment must be sought.

In violation of above, Standing Operating Procedure, disconnection of telephones was not implemented in letter and spirit by AOTR Muzaffarabad & Mirpur which resulted in accumulation of government dues. The manual record of amount billed and recovery made against each telephone had been discontinued and computer software was being utilized for monitoring of billed and realized amount. The bill amount had been maintained on computer software and AOTR had a limited access of soft data. The overall control remains with the Headquarter SCO. As per lists of outstanding dues, an amount of Rs 1.342 million was outstanding against closed private subscribers and court cases as detailed below.

| S.No | Name of Unit | Description | Amount (Rs) |
|--------------|-------------------|--------------------|------------------|
| 01 | AOTR Muzaffarabad | Closed connections | 483,603 |
| 02 | -do- | Court cases | 626,607 |
| 03 | AOTR Mirpur | Closed connections | 58,551 |
| 04 | -do- | Court cases | 173,241 |
| TOTAL | | | 1,342,002 |

The matter was reported in November 2014 and it was replied in December 2014 that cases against private subscriber had already been suited

in the court for recovery. Efforts are underway to recover the amount from defaulters.

The reply was not acceptable as no efforts were made by SCO for recovery. Every year the issue of non recovery from defaulters crops mainly because SCO has no SOP for recovery from defaulters. This shows weak internal control and receivable management.

DAC in its meeting held on 17th December, 2014 directed the management to recover the amount and get it verified from Audit.

Audit recommends that the responsibility for non recovery of outstanding dues on account of closed private connections & court cases should be fixed, recovery of the amounts from the concerned should be ensured and a proper system of recovery from defaulters should be developed so that internal controls are strengthened.

No further progress was reported till finalization of this Report.

(Based on PDP Nos. 158, 166)

CHAPTER-7

TELEPHONE INDUSTRIES OF PAKISTAN (PVT) LTD

7. TELEPHONE INDUSTRIES OF PAKISTAN (PVT) LTD

7.1 Introduction

Telephone Industries of Pakistan (TIP) is a private limited company incorporated in 1953 in collaboration with M/s Siemens under the Companies Act 1913 (Now the Companies Ordinance 1984). TIP is working under the control of Ministry of Information Technology and Telecom Division (MoIT&T). At present MoIT has submitted re vitalization plan of TIP to ECC which will also include bailout plan to settle liabilities of TIP. Government of Pakistan owns the entire shareholding of the company through MoIT.

The company is engaged in manufacturing and sale of telephone sets, telephone exchanges and allied equipment, energy meters etc and also provides services for installation and commissioning of telephone exchanges to telecom operators.

7.2 Comments on Budget and Accounts

TIP management did not provide the annual audited accounts till the finalization of the report despite continuous pursuance by audit. Hence, no comments on accounts could be offered.

7.3 Status of Compliance with PAC Directives

TIP, Ministry of Information Technology

Following table shows the compliance status of PAC directives.

| S. No | Audit Year | Total Paras | Total Directives | Compliance | | %age |
|-------|------------|-------------|------------------|------------|--------------|------|
| | | | | Received | Not received | |
| 01 | 1990-91 | 18 | 18 | 13 | 05 | 72 |
| 02 | 1992-93 | 19 | 19 | 19 | 00 | 100 |
| 03 | 1996-97 | 09 | 05 | 02 | 03 | 40 |
| 04 | 1997-98 | 04 | 04 | 04 | 00 | 100 |

AUDIT PARAS

7.4 Losses on account of Electricity and Sui Gas charges - Rs 41.963 million

According to Rule 23 of *GFR* Vol-I, Every officer should realize fully and clearly that he will be held personally responsible for any loss sustained through fraud or negligence on his part. He will also be held personally responsible for any loss arising from fraud or negligence on the part of any other officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

The bulk meters of Electricity and Sui Gas were installed at T&T Colony Haripur since the inception of Telephone Industries of Pakistan and T&T Colony. The Electricity and Sui-Gas were supplied to the residents of the Colony and subsidiaries of Colony Board from bulk meters on commercial rates and Domestic rates respectively. During the Financial Year 2013-2014 TIP has to sustain a loss of Rs 41.963 million on account of payments made to WAPDA, SNGPL and bills received from the consumers.

The matter was pointed out in September 2014 and it was replied in December 2014 that the TIP has taken measures to bring the losses of sui gas down from 53% to 43% and of electricity from 30% to 16% and the matter has already been taken up with the WAPDA and SNGPL but no response has been received so far.

The reply was not acceptable and it is advised that TIP shall take the matter with WAPDA and SNGPL on top priority. Audit has been pointing out the issue consistently for many years but no measures have been taken in this regard.

DAC in its meeting held on 18th December, 2014 took serious notice for line losses despite repeatedly pointed out by audit. It was directed that the management to take concerted efforts to avoid such recurring losses. It

was further directed to pursue the case for installation of individual meters for the users.

Audit recommends that the matter be investigated and responsibility fixed and amount of loss recovered from officers held responsible and the matter be taken up with the WAPDA and SNGPL authorities for installation of individual meters to avoid recurring losses.

No further progress was reported till finalization of this Report.

(Based on PDP No.168)

7.5 Recoverable amount on account of standard rent and cost of utilities from occupants of residential quarters - Rs 2.338 million

According to Rule-26 of GFR Vol-1, it is the duty of controlling officers to see that all the sums due to Govt. are regularly and promptly assessed, realized and duly credited into the Public Account and Rule-28 of GFR Vol-1 states that "No amount due to Government should be left outstanding without sufficient reasons.

TIP management removed the contract employees on the direction of Ministry of Information Technology (MoIT) and house rent and cost of utilities was not recovered being residing in the factory accommodation. The amount of house rent and cost of utilities was amounting Rs 2.338 million.

The matter was pointed out in September 2014 and it was replied in December 2014 that on termination, various employees went to various courts and obtained status quo on all the issues. The amounts due will be recovered once the matter is decided by the courts.

The reply was misleading as the contractual employees are not entitled for accommodation. The record showed that management itself provided an opportunity to the employees for court cases to avoid the recovery of said amounts.

DAC in its meeting held on 18th December, 2014 discussed all the paras and the Principal Accounting Officer (PAO) informed the house that being head of Finance Committee of TIP he had reviewed all the issues and did not agree with the view point of management of TIP. He recommended that all the paras / issues should be brought in the notice of the Public Accounts Committee.

Audit recommends that matter be investigated and responsibility fixed for not making recoveries from the occupants besides recovering the due amounts.

No further progress was reported till finalization of this Report.

(Based on PDP No.183)

7.6 Non recovery from NRTC and Staff College on account of electricity and Sui Gas charges - Rs 32.276 million

As per Rule, 26 of GFR Vol-I, it is the duty of controlling officers to see that all the sums due to Government are regularly & promptly assessed, realized & duly credited in Public Account. Further, Rule 28 of GFR Vol-I stipulates that “No amount due to Government should be left outstanding without sufficient reason”.

TIP management did not raise the claims of Colony Board Share to M/s NRTC and Telecom Staff College (TSC) on the pretext that the claims could not be served due to non-availability of staff. An amount of Rs 32.276 million was outstanding at year end and no claim was raised till the completion of audit.

The matter was pointed out in September 2014 and it was replied in December 2014 that TIP is pursuing the receivables from concerned quarters continuously through top management. Telecom Staff College has formed a verification committee and the payment will be received as the verification process is completed.