



**AUDIT REPORT
ON
THE ACCOUNTS OF
TELECOMMUNICATION SECTOR
AUDIT YEAR 2015-16**

AUDITOR-GENERAL OF PAKISTAN



2012-13, 2014-15

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ON
THE ACCOUNTS OF
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ABBREVIATIONS & ACRONYMS

| | | |
|--------|---|--|
| ADP | : | Annual Development Plan |
| APC | : | Access Promotion Contribution |
| CCTV | : | Close Circuit Television |
| CDMA | : | Code Division Multiple Access |
| CGA | : | Comptroller General of Accounts |
| CMA | : | Controller Military Accounts |
| CMO | : | Cellular Mobile Operators |
| COD | : | Central Ordinance Depot |
| DAC | : | Departmental Accounts Committee |
| DDO | : | Drawing & Disbursing Officer |
| DP | : | Defence Production |
| DPLC | : | Domestic Private Leased Circuits |
| DWP | : | Development Working Party |
| ECC | : | Economic Coordination Committee |
| ECNEC | : | Executive Committee of National Economic Council |
| EE | : | External Evaluators |
| FAB | : | Frequency Allocation Board |
| FBA&AP | : | Financial Budgeting Accounting & Audit Procedure |
| FCF | : | Federal Consolidated Fund |
| FWO | : | Frontier Works Organization |
| 3G | : | Third Generation |
| 4G | : | Forth Generation |
| GoP | : | Government of Pakistan |
| GSM | : | Global Systems of Mobile |
| ISPAK | : | Internet Service Providers Association of Pakistan |
| KIBOR | : | Karachi interbank offer rate |
| LC | : | Letter of Credit |
| LDI | : | Long Distance International |
| LL | : | Local Loop |
| LMR | : | Land Mobile Radios |
| LPAF | : | Late Payment Additional Fee |
| LTE | : | Long Term Evaluation |

| | | |
|-------|---|--|
| MoIT | : | Ministry of Information Technology |
| MoDP | : | Ministry of Defence Production |
| MSDN | : | Multi Services Data Network |
| NGMS | : | Next Generation Mobile Service |
| NOC | : | No Objection Certificate |
| NTC | : | National Telecommunication Corporation |
| 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 |
| PI | : | Principal Investigators |
| PPRA | : | Public Procurement Regulation Authority |
| PRI | : | Primary Rate Interference |
| PSDP | : | Public Sector Development Programme |
| PTA | : | Pakistan Telecommunication Authority |
| PTCL | : | Pakistan Telecommunication Company Limited |
| R&D | : | Research and Development |
| RIO | : | Reference Interconnect Offer Agreement |
| ROW | : | Right of Way |
| SCO | : | Special Communications Organization |
| SDR | : | Software Defined Radios |
| SECP | : | Security Exchange Commission of Pakistan |
| STL | : | Studio Transmitter Links |
| TIP | : | Telephone Industries of Pakistan |
| USF | : | Universal Service Fund |
| 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 of the Federal Consolidated Fund and Public Account.

The Directorate General of Audit, Posts, Telegraphs and Telephones, 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 2014-15 was conducted during 2015-16 on test check basis with a view to reporting significant findings to the relevant stakeholders. The main body of the Audit Report includes systemic issues and serious audit findings of Rs 1 million or more. The less significant issues are listed in Annexure-I of the Audit Report.

The Audit Report is on the accounts of various organizations of Telecommunication Sector and Pakistan Post Office Department which are under the administrative control of Cabinet Division, Ministry of Defence Production, Ministry of Information Technology and Ministry of Communications.

The Report has been finalized in the light of discussion and the directives issued during 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).

Dated: 14th June, 2016.

-Sd-
Rana Assad Amin Auditor
General of Pakistan

EXECUTIVE SUMMARY

The Audit Report presents results of the audit of the accounts for financial year 2014-15 of the Telecommunication Sector which includes Pakistan Telecommunication Authority (PTA), Frequency Allocation Board (FAB), National Radio and Telecommunication Corporation (NRTC), National Information Communication Technology Research and Development Fund (NICT R&D), National Telecommunication Corporation (NTC), Special Communications Organization (SCO), Telephone Industries of Pakistan (TIP), Universal Service Fund (USF) and Pakistan Telecommunication Company Limited (PTCL).

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

The Report has been finalized after consideration of the replies received from the management of these entities and discussions and directives issued during the DAC meetings with the respective PAOs. Out of these entities only PTA provided financial Statements for the year 2014-15 whereas FAB, NTC, National ICT R&D Fund, TIP, NRTC, USF and PTCL did not provide the financial statements for the year 2014-15 therefore 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 the above nine (09) entities of Telecommunication Sector.

The Directorate General Audit had a budget allocation of Rs 116 million for the financial year, deployed a human resource of 40 officers and staff and utilized 3274 mandays for the audit of these entities.

a. Scope of Audit

The total budgeted allocation of Telecommunication Sector for the financial year 2015-16 was Rs 26,299.372 million and revenue of Rs 40,109.932 million. DG Audit PT&T audited the expenditure of Rs 6,219.045 million which is 24% of the auditable budget allocation and audited the amount of revenue of Rs 17,000.332 million which is 42% of total revenue.

b. Recoveries at the instance of audit

The recoverables of Rs 34,194.428 million were pointed out by the Audit, out of which recovery of Rs 32,753.478 million was accepted and recovery of Rs 1,424.923 million was effected till the finalization of this Report.

c. Audit Methodology

The Desk audit could not be conducted because the accounts of telecommunication entities were not fully maintained and data was not available online. However, permanent files maintained 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 to identify high risk areas. The human and financial resources were allocated for audit accordingly.

d. Audit Impact

On the advice of Audit, telecommunication entities have taken following corrective measures:-

- PTA has drafted its new accounting procedure and manual and submitted it for approval of the Auditor General of Pakistan, being the competent authority. The accounting procedure of FAB is also under review of the competent authority.
- NTC management has amended its accounting procedure and got it approved from the Auditor General of Pakistan, being the competent authority.

- SCO management has adopted the channel of banks for transferring its revenue to the Federal Consolidated Fund and discontinued its earlier procedure which was through the Post Office Department.
- SCO management amended its Financial Budgeting Accounting and Audit Procedure (FBA & A) for making payments under different heads.
- DAC in its meeting held on 19th February, 2016 while discussing the Audit Report 2013-14 directed the SCO to prepare its accounting procedures and submit them for approval of the Auditor General of Pakistan within two months.
- DAC in its meeting held on 19th February, 2016 while discussing the Audit Report 2013-14 directed NTC management to stop the unlawful practice of getting their employees insured from State Life Corporation immediately. The DAC further directed to conduct an inquiry at the level of MoIT hold responsibility and effect recovery from the approving authority.
- DAC in its meeting held on 12th January, 2016 while discussing the proposed draft paras for the year 2015-16 directed SCO to discontinue its current unlawful practice for retention of excess staff as authorized by the Project Management Board on 13th August, 1985. It was further directed that case may be presented to Project Management Board for revision of exiting sanction strength.
- In the light of DAC directives, the telecommunication entities have agreed to comply with the above directions.

e. Key Audit Findings

The Audit Report comprises 97 Audit Paras pointing serious irregularities as follows:-

- i. Illegal and unauthorized provision of 4G / LTE services to public by Warid amounting to Rs 51,692 million pointed out in one (01) para¹.
- ii. Non production of record amounting to Rs 220.852 million pointed out in four (04) audit paras².
- iii. Recoverables amounting to Rs 40,404.016 million were pointed out in Thirty Four (34) paras.³
- iv. Violation of PPRA Rules was pointed out in five (05) cases amounting to Rs 65.930 million.⁴
- v. Unlawful and unauthorized utilization of resources, promotions, appointments and changes in the regulations amounting to Rs 5,788.795 million was noted in twenty eight (14) cases.⁵
- vi. Unlawful payments of extra allowances and financial benefits amounting to Rs 100.115 million in seven (07) cases⁶.

¹ Para 1.5.1

² Para 1.3.1, 6.3.1, 7.4.1 and 9.1.1

³ Para 1.6.1 to 1.6.3, 3.3.1 to 3.3.5, 4.5.1 to 4.5.5, 5.5.1 to 5.5.6, 6.5.1 to 6.5.3, 7.6.1 to 7.6.5 and 8.4.1 to 8.4.7

⁴ Para 5.3.4, 5.3.6, 5.3.7, 6.4.2 and 6.4.4

⁵ Para 1.4.1, 4.3.1, 4.3.2, 5.3.1, 5.3.2, 5.3.3, 5.3.4, 5.3.6, 6.4.4, 7.5.1, 7.5.2, 7.5.3, 8.3.1 and 8.3.2

⁶ Para 1.4.3, 1.4.4, 1.4.5, 1.6.4, 2.3.1, 6.4.2 and 7.5.4

f. Recommendations

- i. The Telecom Entities need to strictly comply with the provisions of Article 78 (2) of the Constitution of the Islamic Republic of Pakistan and ensure timely deposit and surrender of savings and the transfer of revenue in the Federal Consolidated Fund.
- ii. PTA Authority should take appropriate action against illegal and unauthorized usage of 4G / Long Term Evaluation (LTE) Services by M/s Warid and PTCL.
- iii. The compliance of Public Procurement Authority (PPRA) Rules, 2004 for procurement of goods and services be ensured, failing which strict disciplinary action against those at fault should be taken by the competent authority.
- iv. The unlawful increases and unauthorized payments on account of employee related expenses should be stopped and overpayments should be recovered failing which disciplinary action should be taken against those at fault.
- v. The losses, irregularities, unauthorized payments and wasteful expenditures be investigated, responsibilities fixed, recoveries effected and disciplinary action taken against those at fault.
- vi. As per the Pakistan Telecommunication Re-organization Act 1996 (Amended 2006) the management of FAB should formulate its functional regulations to ensure the allocation, monitoring and actions to be taken against usage of illegal frequencies.
- vii. The management of National ICT R&D Fund needs to comply with its approved service rules and manual from Federal Government for utilization of resources and hiring of staff.
- viii. The management of telecommunication entities should expeditiously implement the PAC and DAC directives as well as Audit recommendations.

SUMMARY TABLES AND CHARTS

SUMMARY, TABLES AND CHARTS

Table 1: Audit Work Statistics

(Rs in million)

| S.No | Description | No | Budget |
|------|---|----|--|
| 1 | Total PAOs under Audit Jurisdiction | 3 | Budget 26,299.372 Receipts 40,109.932 |
| 2 | Total formations under Audit Jurisdiction | 37 | Budget 26,299.372 Receipts 40,109.932 |
| 3 | Total PAOs Audited | 03 | Budget 6,219.045 Non Budgeted-Payments 240,216.697 Receipts 20,295.359 |
| 4 | Total formations Audited | 21 | |
| 5 | Comprehensive Audit Inspection Reports | 21 | 266,731.101 |

Table 2: Audit observations regarding Financial Management

(Rs in million)

| S.No | Description | Amount placed under Audit Observation |
|--------------|---|---------------------------------------|
| 1 | Unsound asset management | 0 |
| 2 | Weak financial management | 59,373.640 |
| 3 | Weak Internal Controls relating to financial management | 107,633.672 |
| 4 | Others | - |
| Total | | 167,007.312 |

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

| Sl. No. | Description | Expenditure on | | Receipts | Budgeted | Non Budgeted Payments | Total current year | Total last year |
|---------|--|---|-------------|------------|------------|-----------------------|--------------------|-----------------|
| | | Acquiring Physical Assets (Procurement) | Civil Works | | | | | |
| 1 | Outlays Audited | 25.045 | 15.130 | 20,295.359 | 6,178.870 | 240,216.697 | 266,731.101 | 136,403.062 |
| 2 | Total amount under Audit Observations | - | - | 17,000.332 | 755.465 | 149,251.517 | 167,007.314 | 120,743.309 |
| 3 | Recoverables pointed out by Audit | - | - | - | 34,194.428 | | 34,194.428 | 14,877.424 |
| 4 | Recoverables accepted at the instance of Audit | - | - | - | 32,755.543 | | 32,755.543 | 14,336.472 |
| 5 | Recoverables realized at the instance of Audit | * | - | - | 1,366.037 | | 1,424.923 | 4,924.287 |
| | | ** | | | 58.886 | | | |

* : Recoveries in the notice of management

** : Recoveries not in the notice of management

Table 4: Irregularities Pointed Out**(Rs in million)**

| Sl. No. | Description | Amount placed |
|---------|--|---------------|
| 1. | Violation of principles of propriety & probity and rules & regulations in public operations. | 21,288.478 |
| 2. | Reported cases of frauds, embezzlements, 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 the qualification of audit opinions on the financial statements. | 0 |
| 4. | Weaknesses of internal control systems. | 107,633.672 |
| 5. | Recoveries, Receivables and overpayments, representing cases of established overpayments or misappropriations of public monies. | 32,755.543 |
| 6. | Others including cases of accidents, negligence etc. | 5,329.619 |
| Total: | | 167,007.312 |

Table 5: Cost Benefit

(Rs in millions)

| S.No | Description | Amount |
|---|---|-----------------|
| 1 | Outlays audited | 266,731.101 |
| 2 | Expenditure on Audit | 116 |
| 3 | Recoverable realized at the instance of Audit | 1,424.293 |
| Cost Benefit Ratio of current audit year 2015-16 | | 12.2:1.0 |
| Cost Benefit Ratio for the previous audit year 2014-15 | | 95.3:1.0 |
| Cost Benefit Ratio for the previous audit year 2013-14 | | 4.7:1.0 |

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. Its accounts are audited by Auditor General of Pakistan under the provision of Section 15 of Telecommunication Re-organization Act. Its main functions are as under:

- Act as 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 and 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

Pakistan Telecommunication Authority

Balance Sheet

As at June 30, 2015

| | Note | 2015 Rupees | 2014 Rupees | | Note | 2015 Rupees | 2014 Rupees |
|--|------|------------------------|------------------------|--|------|--------------------|--------------------|
| Non-current assets | | | | | | | |
| Due to Federal Consolidated Fund | | 11,164,364,032 | 10,033,633,917 | Property and equipment | 14 | 373,916,461 | 398,354,243 |
| Due from Public Account | 5 | <u>(5,830,646,397)</u> | <u>(5,821,313,112)</u> | Initial License Fees receivable from operators on behalf of AJK and GB Council | 15 | 101,700,000 | 345,625,000 |
| Due to Government of Pakistan, related party | | 5,333,717,635 | 4,212,320,805 | Deferred tax asset | 16 | 123,529,764 | 141,942,727 |
| | | | | Loans and advances | 17 | <u>230,626,411</u> | <u>227,211,853</u> |
| Non-current liabilities | | | | | | 829,772,636 | 1,113,133,823 |
| Long term payable to AJK and GB Council | 6 | 319,801,474 | 538,107,168 | | | | |
| Deferred grant | 7 | 12,041,361 | 45,635,059 | | | | |
| Deferred liabilities | 8 | 520,110,719 | 547,617,467 | | | | |
| | | 851,926,554 | 1,131,359,694 | | | | |
| Current liabilities | | | | | | | |
| Current assets | | | | | | | |
| Unearned revenue | 9 | 3,486,151,250 | 2,172,151,250 | Fee receivable | 18 | 974,766,484 | 429,508,357 |
| Payable to AJK and GB Council – net | 10 | 343,830,192 | 287,791,157 | Advances, deposits, prepayments and other receivables | 19 | 274,046,007 | 454,064,238 |
| Income tax payable | 11 | 540,302,127 | 693,657,799 | Bank balances | 20 | 8,695,698,779 | 6,682,415,864 |
| Accrued and other liabilities | 12 | 218,356,148 | 181,841,577 | | | 9,944,511,270 | 7,565,988,459 |
| | | 4,588,639,717 | 3,335,441,783 | | | | |
| | | 10,774,283,906 | 8,679,122,282 | | | 10,774,283,906 | 8,679,122,282 |
| Contingencies and commitments | 13 | | | | | | |

The annexed notes 1 to 27 form an integral part of these financial statements

**Pakistan Telecommunication Authority
Income and Expenditure Account
For the year ended June 30, 2015**

| | Note | 2015 Rupees | 2014 Rupees |
|---|------|----------------------|------------------------|
| Revenue | 21 | 15,493,464,302 | 106,041,136,852 |
| Expenditure | | | |
| General and administrative expenses | 22 | 781,009,898 | 1,282,975,820 |
| (Reversal of provision) / provision for doubtful fee receivable | 18.2 | (40,850,727) | 543,124,903 |
| Audit fee | | 700,000 | 400,000 |
| Financial charges | | 5,506 | 3,467 |
| | | (740,864,677) | (1,826,504,190) |
| | | <hr/> 14,752,599,625 | <hr/> 104,214,632,662 |
| Amortization of deferred grant | 7.2 | 33,620,698 | 33,620,698 |
| Other income | 23 | 1,021,093,627 | 560,605,116 |
| | | 1,054,714,325 | 594,225,814 |
| Surplus for the year before taxation | | <hr/> 15,807,313,950 | <hr/> 104,808,858,476 |
| Less: Provision for taxation | 24 | (7,071,723,397) | (3,714,723,951) |
| Net surplus for the year | | | |
| Transferred to Federal Consolidated Fund | | 8,735,590,553 | 101,094,134,525 |

The annexed notes 1 to 27 form an integral part of these financial statements

- 1.2.1 According to Rule 24 of Public Sector Companies Governance Rules (PSCG), 2013, every public sector company shall publish and circulate a statement along with its Annual Report to set out the status of compliance with these rules. Pakistan Telecommunication Authority (PTA) did not take any action to adopt these rules so far which is a violation of PSC Governance Rules, 2013.
- 1.2.2 As per note 24 of Income and Expenditure Account ending June, 2015, an amount of Rs 7.071 billion was charged by PTA as provision for taxation which was about 45% of Profit before Tax (PBT), but tax rate in the year was 33% which resulted into understatement of profit to that extent.
- 1.2.3 As per note 18.3 to Financial Statements ending June, 2015 fee receivables for the year was Rs 17.802 billion whereas an amount of Rs 16.828 billion was charged as provision of doubtful receivables in the current year which is 95% of the receivables. This resulted into understatement of assets for the reported year and non deposit to FCF to the extent in previous years.
- 1.2.4 As per note 23.1 related to other income, PTA charged mark-up on Initial Spectrum Fee (ISF) for Next Generation Mobile Service (NGMS) @ 3.53% per annum from operators who opted to pay ISF in installments. But as per note 20.7 PTA earned 5% to 7.5% mark-up on Bank deposit on local currency accounts. This resulted in understatement of receipts and non deposit to FCF.
- 1.2.5 The statement of changes in FCF (Note 4.3) for the financial year ended June 30, 2015 showed a payment of Rs 215 million on account of Federal Excise Duty (FED). This resulted in over charging of expenditure in the PTA Income Statement.
- 1.2.6 As per note 14 of financial statements ending June 30, 2015 an amount of Rs 8.647 million was charged by PTA as accumulated depreciation on leasehold land in contravention of International Accounting Standard (IAS) 16. It resulted into reduction of reported profit of PTA.

AUDIT PARAS

1.3 Non Production of Record

1.3.1 Denial of Access to View Portal Files and Soft Data

According to section 15(2) of Pakistan Telecommunication Re-organization Act 1996 states that the Authority shall produce such accounts, books and documents and furnish such explanations and information as the Auditor General of Pakistan or any officer authorized by him in this behalf may require for the purpose of audit. Further, section 14 (3) of the powers and functions of the Auditor General of Pakistan states that any person or authority hindering the auditorial functions of the Auditor General of Pakistan regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Discipline Rules, applicable to such person.

Pakistan Telecommunication Authority (PTA) maintains its record on E-office and Oracle database but did not give access to audit to view portal files and soft data. The files move from bottom to top management electronically and seek approval thereto as per hierarchy and become permanent record of PTA. Audit team requested PTA management vide record requisition dated 3rd August, 27th and 29th September 2015 to grant permission and access to view portal files and soft data to discharge its auditorial functions. However, the audit functions could not be completed properly and adequately without examining such soft or portal files.

The matter was reported to PAO and management in September 2015. It was replied that PTA management had not denied access of portal files. All portal files requested by Auditors were provided in hard form. There is no option available in the system which allows user to view files only. The system was developed in 2005 with the major concern to ensure security. Hence, mandatory parameters were defined which do not allow any person to gain access over the system.

The reply was misleading, therefore, not acceptable because the limited access could be granted to Auditors to view e-portal files only. Users IDs are being created and deleted on hiring and firing of officers in PTA. On the same pattern, user ID can be allotted to the Auditors.

DAC in its meeting held on 11th January, 2016 directed PTA management to provide access to Audit to view portal files and soft data from next year.

PTA management accepted the irregularity and committed access to view portal files from next year ensuring that all officials from the Department of the Auditor General of Pakistan will be issued user IDs.

(Based on PDP No.102)

1.4 Irregularity and Non Compliance

1.4.1 Short Deposit of Surplus into Federal Consolidated Fund - Rs 3,015.798 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 of Rs 10,033.634 million for onward depositing into Federal Consolidated Fund in accordance to the above provision. However, examination of the files and remittance challans showed that PTA deposited Rs 7,017.836 million in Federal Consolidated Fund (FCF) which resulted into short deposit of Rs 3,015.798 million. Further, the amount was deposited with a delay of 3 to 9 month.

The matter was reported to PAO and management in September 2015. It

was replied that an amount of Rs 7,017.713 million was surrendered to FCF during the Financial Year 2014-15 after retaining the funds needed for expenditures. Further, there was no delay in depositing the surplus to FCF.

The reply was misleading, therefore, not acceptable to audit. The amount of net surplus as determined in the financial statements was not deposited to FCF. Further, DAC in its meeting held on 21-01-2015 in a similar case directed that PTA should have a mechanism which ensures 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. But, PTA management did not comply with and continued the practice of delay deposit of surplus.

DAC in its meeting held on 11th January, 2016 upheld its earlier decision dated 21-01-2015 and directed the management to comply with the DAC directives and get it verified from audit.

No further progress was intimated till finalization of this Report.

Therefore, Audit recommends that matter should be investigated, responsibility be fixed for non deposit of surplus into FCF timely. Further, disciplinary proceedings should be initiated against the persons at fault for non compliance of the DAC directives under intimation to Audit.

(Based on PDP No.95)

1.4.2 Less Realization of Revenue due to Wrong Calculation of Demand Notes - Rs 1,418 Million

According to Section 4.1.2 of the license, the licensee shall pay the annual regulatory dues to the Authority calculated on the basis of 0.5% Annual License Fee, 0.5% Research and Development Fund and 1.5% Universal Service Fund 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 and FAB mandated payments. However, Initial License Fee (ILF) and Initial Spectrum Fee (ISF) shall not be deducted from the gross revenue.

PTA management issued demand notices to the operators by deducting Federal Excise Duty and Sales Tax, Discount, Roaming Charges, Co location Charges, Leased Line Rental from gross revenue for the calculation of Annual Regulatory Dues. This resulted into less realization of revenue of Rs 1,418 million as detail below:-

| S. No | Name of Operator | Period | Demand Note Issued (Rs) | Demand Note due (Rs) | Amount Less Realized (Rs) |
|--------------|------------------------|------------------|-------------------------|----------------------|---------------------------|
| 1 | M/s Telenor | December 31,2014 | 1,739,410,163 | 2,101,554,838 | 362,144,675 |
| 2 | U fone-PAK Old License | December 31,2014 | 212,895,945 | 274,648,796 | 61,752,851 |
| 3 | Ufone-PAK New License | December 31,2014 | 865,666,208 | 1,084,655,939 | 218,989,731 |
| 4 | Ufone-AJK and GB | December 31,2014 | 9,717,267 | 12,647,833 | 2,930,566 |
| 5 | Mobilink-PAK | December 31,2014 | 1,986,553,574 | 2,719,837,689 | 733,284,114 |
| 6 | Mobilink-AJK and GB | December 31,2014 | 13,531,840 | 17,015,793 | 3,483,953 |
| 7 | Warid-PAK | June 30,2014 | 735,681,660 | 771,339,983 | 35,658,323 |
| 8 | Warid-AJK and GB | June 30,2014 | 3,459,759 | 3,630,228 | 170,468 |
| TOTAL | | | 5,566,916,416 | 6,985,331,099 | 1,418,414,681 |

The matter was reported to PAO and management in September 2015. It was replied that according to International Accounting Standard (IAS) 18, revenue means gross inflow of economic benefits during the period arising in the course of ordinary activity.

The reply was misleading, therefore, not acceptable because the annual gross revenue has been defined in section 4.1.2 of the license. According to policy directives of MoIT dated 05-04-2012 and clause 4.2.3.5 of De-regulation Policy 2003, allowable deductions are only inter-operated charges and related PTA and FAB mandatory payments.

DAC in its meeting held on 11th January, 2016 directed the management to get clarification from Ministry of Finance. Further, PAC in its meeting held on 28th January, 2016 while discussing similar nature para of audit report for the year 2013-14 directed the PAO to refer the matter to FBR and Ministry of Finance.

No further progress was intimated till finalization of this Report.

Therefore, Audit recommends that responsibility should be fixed for wrong calculation of demand notes besides recovery of balance amount from operators, failing which, strict disciplinary action be initiated against officials at fault under intimation to Audit.

(Based on PDP No.110)

1.4.3 Unlawful Payment on Account of Conveyance Allowance at Enhanced Rates - Rs 35.192 million

According to the approved 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 is allowed to the PTA employees.

PTA management paid an amount of Rs 35,191,940 to its officers and officials in monthly salary at enhanced rates of 30% of mean of pay scale without approval of the Ministry of Finance during 2014-15. The payment without approval of the Ministry of Finance stands unlawful.

The matter was reported to PAO and management in September 2015. It was replied that conveyance allowance @15% of mean of the scale was being paid to the employees working in SG-1 to EG-3. The Government of Pakistan (GoP) revised the conveyance allowance due to increase in POL prices and the extra burden being borne by the employees while performing their duties so in line with the revision made by the GoP, the Authority approved the revision of conveyance allowance from 15% to 30% of mean of scale for PTA's employees

from SG-1 to EG-3 with effect from 1st July 2012.

The reply was evasive, therefore, not acceptable as the conveyance allowance at enhanced rate of 30% has not been approved by the Ministry of Finance.

DAC in its meeting held on 11th January, 2016 pended the para and directed PTA to get the expenditure regularized from Ministry of Finance.

No further progress was intimated till finalization of this Report.

Therefore, Audit recommends that this unlawful practice should be stopped immediately. Responsibility for violation of rules should be fixed and amount given be recovered, besides taking strict disciplinary action against officials responsible for making this payment under intimation to Audit.

(Based on PDP No.85)

1.4.4 Unlawful Payment on account of Supplementary Allowance 2014 - Rs 15.378 Million

According to Ministry of Finance (Regulation Wing) letter No.F.4(3)R-4/2011 dated 16th September, 2014, the grant of Adhoc Relief Allowance-2014 @10% of basic pay subject to existing conditions will also be applicable to the employees of Autonomous and Semi Autonomous Bodies and Corporations, which have adopted the Federal Government's Basic Pay Scales Scheme in totality. Further, the above orders will, however, not be applicable to those Public Sector Corporations and Autonomous and Semi Autonomous Bodies which have adopted different pay scales and allowances. In case of such organization, the grant of Adhoc Relief Allowance-2014@10% of basic pay subject to existing conditions will be allowed with the concurrence of Standing Committee of Ministry of Finance on recommendations of the respective Board of Directors and Governors. The grant of Adhoc Relief Allowance-2014@10% of basic pay will invariably be tagged with the financial position of the organization.

PTA management allowed Adhoc Relief @ 15% of basic pay to its employees on its own without approval of the Ministry of Finance. An amount of Rs 15,377,955 has been paid to the employees on this account during 2014-15. Detail is as under:

| S. No. | Date | Voucher No | Description | Amount (Rs) |
|--------------|------------|------------|------------------------------------|-------------------|
| 01 | 16/06/2015 | V-06/0436 | Arrears of supplementary allowance | 14,103,074 |
| 02 | 26/06/2015 | JV-06/0431 | Payment of supplementary allowance | 524,054 |
| 03 | 26/06/2015 | JV-06/0430 | -do- | 666,318 |
| 04 | 26/06/2015 | JV-06/0429 | -do- | 84,509 |
| TOTAL | | | | 15,377,955 |

The expenditure was irregular as it was paid without the approval of Ministry of Finance. Further, it was paid @15% of Basic Pay whereas the same was permissible @10% of Basic Pay provided that it had been approved from the Ministry of Finance.

The matter was reported to PAO and management in September 2015. It was replied that Adhoc Relief allowance 2014 was increased by the Government of Pakistan (GoP) @ 15% of basic pay. In line with the revision made by the GoP the Authority very kindly approved the said Adhoc Relief allowance. The Authority approved the Adhoc allowance for the PTA's Employees from SG-1 to EG-4 under the provisions of the Pakistan Telecommunication (Re-organization) Act, 1996 (amended in 2006) and PTA Employees Service Regulations, 2008.

The reply was misleading, therefore, not acceptable because the 10% supplementary allowance was not approved by the Ministry of Finance being approving authority of the PTA pay packages.

DAC in its meeting held on 11th January, 2016 noted that decision of

Ministry of Law is silent about competency of PTA to approve the pay and allowances for its employees. DAC directed PTA to take up the matter with Ministry of Finance for their concurrence through Cabinet Division.

No further progress was intimated till finalization of this Report.

Therefore, Audit recommends that this unlawful practice should be stopped immediately. Responsibility for violation of rules should be fixed and amount given be recovered, besides taking strict disciplinary action against officials responsible for making this payment under intimation to Audit.

(Based on PDP No.87)

1.4.5 Unlawful Payment on account of Supplementary Allowance 2013 - Rs 13.505 Million

According to Ministry of Finance (Regulation Wing) letter No.F.4(3)R-4/2011 dated 10th September, 2013, the grant of Adhoc Relief Allowance-2013 @10% of basic pay subject to existing conditions will also be applicable to the employees of Autonomous and Semi- Autonomous Bodies and Corporations, which have adopted the Federal Government's Basic Pay Scales Scheme in totality. Further, the above orders will, however, not be applicable to those Public Sector Corporations and Autonomous and Semi- Autonomous Bodies which have adopted different pay scales and allowances. In case of such organization, the grant of Adhoc Relief Allowance-2013@10% of basic pay subject to existing conditions will be allowed with the concurrence of Standing Committee of Ministry of Finance on recommendations of the respective Board of Directors. The grant of Adhoc Relief Allowance-2013@10% of basic pay will invariably be tagged with the financial position of the organization.

PTA management allowed Adhoc Relief @ 10% of basic pay to its employees on its own without approval of the Ministry of Finance. An amount of Rs 13,504,611 has been paid to the employees on this account during 2014-15.

The matter was reported to PAO and management in September 2015. It was replied that Adhoc Relief allowance 2013 was increased by the Government of Pakistan (GoP) @ 10% of basic pay. In line with the revision made by the GoP the Authority approved the said Adhoc Relief allowance.

The reply was misleading, therefore, not acceptable because the 10% supplementary allowance was not approved by the Ministry of Finance being approving authority of the PTA pay packages.

DAC in its meeting held on 11th January, 2016 noted that decision of Ministry of Law is silent about competency of PTA to approve the pay and allowances for its employees. DAC directed PTA to take up the matter with Ministry of Finance for their concurrence through Cabinet Division.

No further progress was intimated till finalization of this Report.

Therefore, Audit recommends that this unlawful practice should be stopped immediately. Responsibility for violation of rules should be fixed and amount given be recovered, besides taking strict disciplinary action against officials responsible for making this payment under intimation to Audit.

(Based on PDP No.86)

1.5 Observations Regarding Performance

1.5.1 Loss to Public Exchequer due to Illegal Usage of 4G LTE Services by M/s Warid - Rs 51,692 Million (US\$ 516.920 Million)

According to the license condition-5 that the licensee shall retain during the term of this license a non exclusive and non revocable right to apply for the rights to use such other radio frequencies and in particular those frequencies most suitable for the provision of third generation (3G) mobile services. Such application being made in accordance with any procedure that the Authority (PTA) or the Board (FAB) or both may require and stipulate at that time”

PTA management unlawfully allowed M/s Warid for provision of 4G LTE services to public at large. M/s Warid was neither a Next Generation Mobile Services (NGMS) license holder nor participated in the auction of NGMS. This resulted into loss of Rs 51,692 million (US\$ 306.920 + 210 million) to the national exchequer.

The matter was reported to PAO and management in September 2015. It was replied that according to clause 5.1, the Mobile Cellular Policy 2004 the Mobile Cellular Licenses will be technology neutral, which permits the licensees to use any technology, in line with the international standards, in their assigned spectrum. After detailed in house deliberation, M/s Warid Telecom was permitted to provide LTE based services.

The reply was misleading, therefore, not tenable as M/s Warid Telecom did not participate in the auction of Next Generation Mobile Services (NGMS) held by PTA and had not obtained a license for use of 3G and advance technology. Further, the Federal Government is the competent authority for issuance of policy directives but in this case the Federal Government was not taken on board and PTA itself permitted the operator for provision of unlawful services of 4G LTE services.

During DAC held on 11th January, 2016 the Chairman PTA elaborated the details of auction and permission granted to M/s Warid Telecom with facts and figures and categorically stated that PTA Authority owns full responsibility of reported auction which has been done in the best interest of the country. Audit did not agree with the contention of PTA management as the case for permission was not presented before Federal Government being a competent authority for issuance of policy directives for NGMS. Further, M/s Warid Telecom did not participate in the auction of NGMS as required in the policy directives of the Federal Government. Therefore, DAC decided to place this para before PAC for final decision.

No further progress was intimated till finalization of this Report.

Therefore, Audit recommends that matter should be investigated, responsibility be fixed and disciplinary actions be initiated against those who granted permission to M/s Warid for provision of 4G / LTE services and not getting approval from the Federal Government under intimation to Audit.

(Based on PDP No.92)

1.5.2 Unlawful Provision of 4G LTE Services by PTCL and Loss of Rs 42,600 Million (US\$ 426 Million)

Section 5 sub section (2) of Pakistan Telecommunication (Re-organization) Act, 1996 states that in particular, and without prejudice to the generality of the foregoing power, the Authority shall grant and renew licenses for any telecommunication system and any telecommunication service on payment of such fees as it may, from time to time specify and all of its decisions and determinations are made promptly, in an open equitable, non-discriminatory, consistent and transparent manner. Furthermore, Rule 23 of GFR Vol-I states that 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.

PTCL is providing 4G LTE Tablet, Charji Evo Tab and Charji Evo Cloud device to its customers without buying spectrum in 3G / 4G (NGMS) auction. This resulted into loss of Rs 42,600 million to the national exchequer as PTCL did not participate in the auction of NGMS. On the other hands, M/s Zong had paid the above mentioned amount during auction for provision of these services.

The matter was reported to PAO and management in September 2015. It was replied that licenses issued under the Deregulation Policy 2003 were technology neutral. Licensees could, therefore, deploy any advanced Technology while following the terms and conditions of the License.

The reply was misleading, therefore, not tenable as PTCL was providing 4G LTE services without getting license for the purpose.

DAC in its meeting held on 11th January,2016 directed PTA management to provide final outcomes of the court case regarding provision of 4G / LTE services to DAC and Audit.

No further progress was intimated till finalization of this Report.

Therefore, Audit recommends that the matter should be investigated, responsibility be fixed and disciplinary actions be initiated against those held responsible for allowing PTCL to operate 4G LTE services. Moreover the loss of Rs 42,600 million be recovered and deposited in the FCF under intimation to Audit.

(Based on PDP No.93 and 158 of FAB)

1.5.3 Loss to the National Exchequer due to Negligence of PTA - Rs 2,000 Million

According to clause 3.2.1 read with clause 1.2.1 of appendix-2 of license condition (issued in August 2004), M/s D.V.Com was required to establish at least one network connection point in each region and commence mandatory service within eighteen (18) months from the effective date i.e. up to 11.02.2006.

PTA management failed to cancel the license of M/s DV Com upon non fulfillment of its rollout obligations and granted extension in its obligatory period up to 04.07.2007 and again up to 31.12.2008. Hence, obligatory period of 18 months was extended for a period of more than 4 years. Further, PTA Authority allowed M/s DV Com for subletting its license to its subsidiaries which is unlawful in violation of the para 4.4 of the Deregulation Policy 2003. This resulted into irregular sale of spectrum and loss to the national exchequer of Rs 2,000 million.

The matter was reported to PAO and management in September 2015. It was replied that PTA did not allow sale of spectrum. PTA only permitted change of management from DV Com Data (Pvt.) Limited to PTCL, which is permitted as per clause 5 (2) (f) of the Act, Rule (11) of Telecom Rules 2000, Regulation (21) of Functions and Powers Regulations, 2006 and WLL License Condition 12.4.

The reply was misleading, therefore, not acceptable as license was transferred in violation of the license conditions, the Deregulation Policy 2003 and ban imposed by the Cabinet Committee of Regulatory Bodies (CCRB) for seven years. The change of management or transfer of license to a subsidiary company and afterwards to PTCL rendered the whole process as unlawful.

DAC in its meeting held on 11th January, 2016 directed PTA to conduct departmental inquiry within a month besides verification of amount recovered so far, within three weeks.

No further progress was intimated till finalization of this Report.

Therefore, Audit recommends that a high level inquiry be conducted, responsibility be fixed and disciplinary actions be taken against those who were responsible for this loss besides recovery of the amount from the concerned licensees failing which recovery should be made from the officials who granted this unlawful permission under intimation to Audit.

(Based on PDP No.98)

1.5.4 Loss to the National Exchequer due to Negligence of PTA- Rs 1,585 Million

According to clause 4.1.1 (b) read with clause 1.3.1 of Appendix of the license issued to M/s Telecard in 2004. The company was required to deposit Rs 1,585,500,000 as 50% of initial license fee on winning of bid and remaining 50% immediately after award of license.

M/s Telecard acquired Wireless Local Loop (WLL) license for 14 telecom regions in 2004 through an open auction. The company deposited an amount of Rs 1,585,500,000 as 50% of initial license fee on winning of bid. PTA issued license to Telecard without collecting remaining 50% obligatory amount. The company along with other representatives of WLL sectors made presentation before the Prime Minister of Pakistan and Economic Coordination Committee, Cabinet Division. PTA management could not plead the case properly and as a result the ECC, granted four (04) years moratorium to WLL Operators for staggering of balance payment.

After expiry of four years period, M/s Telecard was required to deposit the remaining 50% payment on 17th March, 2010 as per the decision of ECC but the company failed to deposit the said amount. M/s Telecard approached PTA with the request that company has sold its 100% shares to PTCL and PTCL will deposit the outstanding dues. The company further requested that license may be transferred in the name of PTCL. PTA instead of terminating the license and re-auctioning the spectrum; accepted the proposal causing a heavy loss of revenue to the National Exchequer.

The matter was reported to PAO and management in September 2015. It was replied that there was no negligence on the part of PTA in the subject case. Efforts had been made by PTA for recovery of remaining 50% outstanding dues of Initial Spectrum Fee (ISF) but Telecard Ltd. did not make the payment. Hence, PTA issued show cause notice under section 23 of the Act on 2nd June, 2010. The license of Telecard was terminated on 29th May, 2012 and PTA filed the recovery petition on the same date for Rs 2,435,328,000 on account of ISF including late payment additional fee up to 29th May, 2012 as Land Revenue.

The reply was misleading, therefore, not acceptable as PTA did not safeguard the national interest by issuing licence to M/s Telecard without collecting remaining 50% mandatory initial licence fee.

DAC in its meeting held on 11th January, 2016 directed PTA to conduct departmental inquiry within a month besides verification of amount recovered so far, within three weeks.

No further progress was intimated till finalization of this Report.

Therefore, Audit recommends that a high level inquiry be conducted into the matter to find out as to why M/s Telegard was allowed to operate despite of non recovery of Government dues, causing loss of Government revenue of Rs 1,585 million. Moreover, responsibility be fixed and disciplinary action be taken and amount be recovered from the persons held responsible and credited into FCF under intimation to Audit.

(Based on PDP No.97)

1.5.5 Loss to the National Exchequer Due to Undue Favour by PTA - Rs 1,422 Million

According to clause 4.1.2 (a), 4.1.2 (b), 4.1.3, 4.2.1, 4.2.2 and 4.2.3 read with clause 1.3.2 of Appendix - 2 of the license make it obligatory on the licensee to deposit Annual Regulatory Dues i.e. Annual License Fee (ALF), Research and Development (R&D) Fund Contribution, Universal Service Fund (USF) Contribution and Annual Radio Frequency Spectrum Fee (ARFSF) within 120 days of the end of the financial year to which such fees and contribution relates.

M/s Great Bear International Services (Pvt) Ltd deposited an amount of Rs 563,500,000 as 50% initial license fee upon issuance of WLL and FLL license. The remaining 50% amount was required to be deposited after four years grace period granted by the ECC upto 17th March, 2010 but the company failed to deposit the dues.

The matter was reported to PAO and management in September 2015. It was replied that there was no negligence at the part of PTA in the subject case. Further, efforts had been made by PTA for the recovery of remaining 50% outstanding dues of Initial Spectrum Fee (ISF)

The reply was evasive, therefore, not tenable because Great Bear International Services (Pvt) Ltd was issued WLL and FLL licenses in 2004 and 2008 respectively. The company was required to deposit the remaining 50% payment on 17.03.2010 but the company did not deposit the amount.

DAC in its meeting held on 11th January, 2016 directed PTA to conduct departmental inquiry within a month besides verification of amount recovered so far, within three weeks. DAC further directed PTA to take up the matter with ITU (International Telecommunication Union) for recovery of remaining amount from M/s Great Bear International.

No further progress was intimated till finalization of this Report.

Therefore, Audit recommends that matter should be investigated at the level of the Ministry, against those who failed to recover the dues. Moreover, responsibility be fixed and disciplinary action be taken and amount be recovered from the persons held responsible and credited into FCF under intimation to Audit.

(Based on PDP No.116)

1.5.6 Unlawful Trading of Valid Licensed Spectrum

Para 4.4 of De-regulation Policy 2003 stipulates that the radio spectrum is a valuable public resource belonging to the State and must be used in public interest. Further, license condition 5.2.1 (b) states that the licensee shall only use the assigned radio frequency spectrum in its own operations, and it shall not lease, sub-license, allocate, assign or otherwise make available the use of the assigned radio frequency spectrum to another operator.

PTA allowed the following operators to transfer their licenses in violation to the above rules:-

- i) M/s Telegard sold its valid licensed spectrum of WLL to PTCL.

- ii) M/s Telecard sold its valid licensed spectrum of WLL to Sharp Communication.
- iii) M/s Dv com transferred its license to its subsidiary i.e Dv com Wimax. The Dv com Wimax sold its license to Linkdotnet (i.e a subsidiary of Mobilink) against a price of US\$ 12 million.
- iv) The license of M/s Warid transferred or sold to M/s Wateen.
- v) The license of M/s Dancom Transferred or sold to Tone-1 CSS.
- vi) The license of M/s Burraq Transferred or sold to ATCO Brandcom.

The matter was reported to PAO and management in September 2015. It was replied that PTA was empowered under clause 5 (2) (f) of the Act, Rule (11) of Telecom Rules 2000, Regulation (21) of Functions and Powers Regulations, 2006 and WLL license Condition 12.4 to approve transfer or change of management of licenses after fulfilling all the legal and codal formalities by the licensee. The licensed spectrum of Telecard had not been sold to PTCL. The license of Dancom had not been transferred and sold to Tone-I CSS or any other company.

The reply was misleading, therefore, not acceptable as license was transferred in violation of the license condition. The change of management or transfer of license to a subsidiary company is considered a transfer of license from one company to another. Moreover, as per law a subsidiary company is a legal separate entity and a separate corporate individual. The spectrum is precious national asset and it was leased out to operator(s) for operation for a certain period of time. The lessee (i.e licensee) had no right to sell out this leased out precious asset (spectrum) to someone else, party or individual.

DAC in its meeting held on 11th January,2016 clubbed this para with PAC directives already issued in its meeting held on 10th August, 2015 while

discussing Audit Para No. 1.11 of Audit Report 2007-08 wherein the PAO was directed to revisit the whole case in detail and submit its comprehensive report along with minutes of meeting to PAC within 30 days.

No further progress was intimated till finalization of this Report.

Therefore, Audit recommends that the matter should be investigated at the level of the Ministry, fix the responsibility for transfer of license(s) and trading of spectrum in violation of rules and expedite the findings of committee headed by PAO nominated by PAC on 10.08.2015 which is still awaited.

(Based on PDP No. 163 of FAB 162)

1.6 Receivables

1.6.1 Non Recovery of Outstanding Initial License Fee and Annual Regulatory dues - Rs 15,888.478 Million

According to license condition 4.1.1.1 and 4.1.1.2 the licensee shall pay 50% of the auction price upfront and remaining 50 % initial license fee shall be paid by the licensee in 10 equal annual installments. Moreover, Condition 4.4.1 of ibid further stipulates that the licensee shall pay the remaining 50% of initial license fee within 120 days of the end of financial year.

PTA did not recover an amount of Rs 15,888 million from M/s Instaphone on account of ILF, USF charges, ALM Fee, ASA Fee and R&D Contribution.

(Rs in million)

| S.No. | Description | Amount |
|--------------|-------------------------------|-------------------|
| 1 | Initial License Fee (22211) | 15,641.140 |
| 2 | Annual License Mobile (22216) | 18.830 |
| 3 | USF Charges (22217) | 56.489 |
| 4 | R&D Contribution (22218) | 18.830 |
| 5 | Annual Spectrum Fee (22244) | 153.189 |
| TOTAL | | 15,888.478 |

Non recovery of long outstanding receivables reflects the ineffective financial management of PTA and weak internal controls devised for realization of receivables.

The matter was reported to PAO and management in September, 2015. It was replied that in the light of detailed judgment of the Supreme Court of Pakistan, a recovery petition Rs 21,642,328,035 was filed with DRO ICT on 16th March, 2011. A petition was filed by the defaulter in IHC to stop the proceedings which was dismissed by the court. The DC, ICT issued orders on 21st May, 2013 in the light of undertaking given by Pak Com Limited that the defaulter cannot dispose off company's Assets and matter was adjourned until all court cases between PTA and Pak Com Limited are disposed off.

DAC in its meeting held on 11th January, 2016 directed the management to recover the amount and get it verified from audit within three weeks. It was further directed to PTA to pursue the recovery of remaining amount vigorously.

No further progress was intimated till finalization of this Report.

Therefore, Audit recommends that matter should be investigated, responsibility fixed and disciplinary action, be taken against those who at fault under intimation to Audit.

(Based on PDP No.114)

1.6.2 Non Recovery of Outstanding Dues on account of R&D Contribution - Rs 1,979.832 Million

According to condition 3.4.1 of license, in any financial year of licensee, the licensee shall contribute to Research and Development Fund established by the Government of Pakistan in an amount calculated on the basis of 0.5 % of its annual gross revenue. Condition 4.4.1 further stipulates that the licensee shall make this contribution within 120 days of the end of financial year.

PTA failed to recover Rs 1,979,832,102 on account of R&D Contribution from the M/s PTCL since long.

The matter was reported to PAO and management in September 2015. It was replied that total liability was Rs 2,554,459,888 including LPAF. PTCL had paid principal amount of Rs 1,116,654,878 as confirmed by MoIT vide letter dated 21-01-2015. The matter of LPAF was challenged in Islamabad High Court by various operators including PTCL.

The reply was misleading, therefore, not tenable because as per record provided to audit, an amount of Rs 1,979,002,485 was outstanding against PTCL as on 30-06-2015.

DAC in its meeting held on 11th January, 2016 directed PTA management to get verified the amount recovered so far, within three weeks. It was further directed to pursue the recovery of remaining amount vigorously.

No further progress was intimated till finalization of this Report.

Therefore, Audit recommends that matter should be investigated, responsibility fixed and disciplinary action, be taken against those who at fault under intimation to Audit.

(Based on PDP No.113)

1.6.3 Non Recovery of Outstanding Dues on Account of Annual License Fee - Rs 3.985 Million

According to Para 4.4.1 of General conditions of license, the licensee shall pay all annual fee to Authority within 120 days of the end of the financial year to which such fee relates. 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.

PTA management did not recover an amount of Rs 3,985,130 on account of Annual License Fee-Mobile from M/s Ufone during 2014-15. Further, receivables of Rs 18,829,617 stood against M/s Instaphone since long. Non recovery of long outstanding receivables reflects the ineffective financial management of PTA and weak internal controls devised for realization of receivables.

The matter was reported to PAO and management in September 2015. It was replied that M/s Ufone paid an amount of Rs 3,989,130 on account of Annual License Fee for the year ended 31st Dec 2014 vide cheque No. 876 dated 31st Aug 2015. Regarding Instaphone, the matter was subjudice.

The reply was misleading therefore not tenable as the recovery made from M/s Ufone was not verified from Audit.

DAC in its meeting held on 11th January, 2016 directed PTA management to get verified the amount recovered so far, within three weeks. It was further directed to pursue the recovery of remaining amount vigorously.

No further progress was intimated till finalization of this Report.

Therefore, Audit recommends that matter should be investigated, responsibility fixed and disciplinary action, be taken against those who at fault under intimation to Audit.

(Based on PDP No.115)

1.6.4 Over Payment Due to Non Implementation of Approved Pay Package - Rs 3.395 Million

Ministry of Finance vide notification No.F-4(15)/R-4/04 dated 17th January, 2007 approved the pay package of PTA, whereby the pay was required to be fixed from National Basic Pay Scales (i.e BPS) to PTA scales w.e.f 1st October, 2004.

PTA management did not implement the approved pay package of 2007 with principle mentioned in para 3 of *ibid*. It was also decided that no recovery shall be made from the employees due to re-fixation of pay in the new pay scales and the revised rates of allowances effective from October 2004 nor any arrears shall be paid on this account. Audit had already pointed out this during 2008. It was further observed that the approved pay package (i.e Revised Pay Scales of 2004, 2005, 2007, 2008 and 2011) were not implemented in letter and spirit, which resulted into certain overpayment. Overpayments were being made to the employees of PTA and most of them had either left or had retired from service.

The matter was reported to PAO and management in September 2015. It was replied that according to section 10 (3) of the Act 1996, the Authority may make regulations for appointment, promotion, termination and other terms and conditions of employment of its employees. PTA is self competent according to the Ministry of Law and Justice. Pay package of PTA employees i.e 2004, 2005, 2007, 2008 and 2011 were implemented in true letter and spirit. The pay of the employee was fixed on point to point basis. Hence, as a result of re-fixation no arrears and no recoveries were affected.

The reply was misleading therefore not tenable because pay package of PTA employees i.e 2004, 2005, 2007, 2008 and 2011 were not implemented in true letter and spirit which resulted into overpayment of Rs 3.395 million.

DAC in its meeting held on 11th January, 2016 linked this para with Audit Para No. 1.7 of Audit Report 2007-08 and directed PTA to implement, the approved pay package as directed by Ministry of Finance and get it verified from Audit.

No further progress was intimated till finalization of this Report.

Therefore, Audit recommends that PTA should refix the pay of all employees in the light of above mentioned letter that was issued by Ministry of Finance. Moreover, overpayment made to different employees be recovered under report to Audit.

(Based on PDP No.103)

1.6.5 Non Recovery of Outstanding Dues from Telecom Operator - Rs 2.492 million

According to condition 4.4.1 of license, the licensee shall pay all annual fees to the authority within 120 days of the end of financial year. Para 4.4.2 further stipulates that in addition to any other remedies available to the authority, late payment of all 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.

PTA management failed to recover an amount of Rs 2,492,429 from M/s NTC and SCO during 2014-15. Non recovery of receipts reflects the ineffective financial management of PTA and weak internal controls devised for realization of receivables.

The matter was reported to PAO and management in September 2015. It was replied that the Demand Note No. PTA/Finance/Basic/NTC/2006, dated 13th January, 2015 Rs 10,436,955 was issued to NTC. NTC paid Rs 8,953,317. NTC did not pay the remaining dues of Rs 1,483,638 since it is of the view that Co location Revenue is not a Licensed Revenue and Annual License Fee shall not be calculated on this amount. On this issue numerous meetings have been held with the licensee and the matter is likely to reach finalization. In respect of SCO, it is submitted that the amount of Rs 171,685 represents tax deductions by SCO. The tax deduction certificate provided by SCO was not acceptable to PTA. Accordingly, PTA asked SCO to provide authentic tax deduction certificate which has not been provided by SCO yet. As soon as it is provided, the amount will be adjusted.

The reply was misleading therefore not tenable as the amount recovered was not verified from Audit.

DAC in its meeting held on 11th January, 2016 pended the para with the direction to get verified the amount recovered so far, within three weeks. It was further directed to PTA to pursue the recovery of remaining amount vigorously.

No further progress was intimated till finalization of this Report.

Therefore, Audit recommends that outstanding amount should be recovered at the earliest and get it verified from Audit.

(Based on PDP No.112)

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 made.

AUDIT PARAS

2.3 Irregularity and Non Compliance

2.3.1 Unlawful Payment on Account of Supplementary Allowance - Rs 7.770 Million

According to Ministry of Finance (Regulation Wing) letter No. F.4(3)R-4/2011 dated 10th September, 2013, the grant of Adhoc Relief Allowance-2013 @10% of basic pay subject to existing conditions will also be applicable to the employees of Autonomous and Semi Autonomous Bodies and Corporations, which have adopted the Federal Government's Basic Pay Scales Scheme in totality. Further, the above orders will, however, not be applicable to those Public Sector Corporations and Autonomous and Semi Autonomous Bodies which have adopted different pay scales and allowances. In case of such organization, the grant of Adhoc Relief Allowance 2013 @ 10% of basic pay subject to existing conditions will be allowed with the concurrence of Standing Committee of Ministry of Finance on recommendations of the respective Board of Directors. The grant of Adhoc Relief Allowance 2013@10% of basic pay will invariably be tagged with the financial position of the organization.

FAB management allowed Supplementary Allowance @ 10% of basic pay to its employees on its own without approval of the Ministry of Finance. An amount of Rs 7,770,354 was paid to the employees on this account during 2014-15.

The matter was reported to PAO and management in October 2015. It was replied that Ministry of Finance (Regulation Wing) extended PTA's pay package, perquisites, facilities and staff retiring benefits to FAB Employees and also approved that any revision of Pay Package by PTA shall 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.

The reply was misleading, therefore, not acceptable because Ministry of Finance never allowed to grant any allowance without its prior approval but only extended the PTA's approved pay package to FAB employees. Further, PAC in its meeting held on 28th January, 2016 while discussing similar nature para of Audit Report 2013-14 directed to recover the amount. Therefore, the payment stands unlawful and unauthorized and requires to be recovered.

DAC in its meeting held on 11th January, 2016 directed FAB to take up the matter with Ministry of Finance for their concurrence through Cabinet Division.

No further progress was intimated till finalization of this Report.

Therefore, Audit recommends that matter should be investigated, responsibility should be fixed for unlawful and unauthorized payment, besides recovery of the amounts from the persons. Further, the illegal practice of payment of supplementary allowance be stopped immediately under intimation to Audit.

(Based on PDP No.156)

2.4 Observations Regarding Performance

2.4.1 Loss Due to Award of Additional Frequency Spectrum to CM PAK (ZONG) Without Auction - Rs 21,000 Million (US \$ 210 Million)

According to section 12 of FAB Regulation, 2014 the Board shall assign frequency to the applicant once the formal application for the purpose received by the Board through the PTA.

FAB allocated the additional frequency spectrum in 1800 MHz band to M/s Zong without auction on 8th September, 2007 and further extended for three years without charging for the assigned spectrum. The facilitating period expired on 7th September, 2011 but the additional frequency spectrum remained

under the use of M/s Zong till 30th July, 2014. Thus national exchequer sustained a loss of US \$ 210 million (equivalent to Pak Rupees 21,000 million).

The matter was reported to PAO and management in October 2015. It was replied that M/s Zong had been allocated additional temporary assignments in 1800 MHz due to cross border interference in 900 MHz band. The same additional temporary assignments were made to the predecessor of M/s Zong i.e. Paktel.

The reply was evasive, therefore, not tenable as M/s Zong was enjoying additional spectrum free of cost since 8 years. The extra allocated spectrum should have been vacated by M/s Zong or should had been charged for the usage of additional frequency.

DAC in its meeting held on 11th January, 2016 directed FAB to workout actual amount of loss on account of additional usage of spectrum by M/s Zong and take it up with PTA for recovery. The Committee further directed FAB to get the additional spectrum vacated from M/s Zong, immediately.

No further progress was intimated till finalization of this Report.

Therefore, Audit recommends that the additional frequency allocated to M/s Zong be got vacated at the earliest besides charging and affecting recovery for the usage of additional frequency failing which disciplinary action should be initiated against the officer responsible for non recovery of additional frequency under intimation to Audit.

(Based on PDP No. 164)

2.4.2 Unlawful Utilization of Frequency

Section 27(c) of FAB Regulation states that after having detected the source of interference and interferer proved to be illegal, the Board will, furnish the information to the Court to obtain a search warrant and confiscate the illegal equipment as prescribed in section 32 of the Act.

FAB identified illegal use of Industrial Scientific Medical Band (ISM) Band by Pakistan Broadcasting Corporation (PBC) and Land Mobile Radio System by 60 private security agencies. However, FAB management did not take any action of fine or imprisonment as required in section 32 of Pakistan Telecommunication (Reorganization) Act and FAB regulations.

The matter was reported to PAO and management in October 2015. It was replied that that as per section 42 (1) of Pakistan Telecommunication (Re-organization) Act 1996, Frequency Allocation Board took over the functions performed by the PWB and its prime responsibility is to assign frequencies in Pakistan and to investigate all complaints of interferences and take appropriate action to effect the clearance thereof. In view of above, FAB only investigates all cases of interference complaints as per section 5 (4) of Pakistan Wireless Board Act and reports the violations and infringements to relevant authorities like PEMRA and PTA to take legal actions as deemed appropriate vide clauses mentioned in section 23 of Pakistan Telecommunication (Re-organization) Act 1996. Consequently, enforcement is done by PTA and PEMRA on the violation telecom and broadcasting cases reported by the FAB.

The reply was misleading, therefore, not tenable as the Board has power under section 27 (c) of FAB Regulations to obtain a search warrant from Court and confiscate the illegal equipment.

DAC in its meeting held on 11th January, 2016 directed FAB to work out the actual amount on account of unauthorized usage of spectrum by PBC, on the ISM Band and private users on the Land Mobile Radio System (LMRS). It was further directed to vacate the spectrum from illegal users immediately and get the same recovered.

No further progress was intimated till finalization of this Report.

Therefore, Audit recommends that FAB should exercise its power vested to it under 27 (c) of FAB Regulations against illegal users of frequency and

recover the amount from them within two weeks failing which disciplinary action should be initiated against the officer responsible for non recovery of additional frequency under intimation to Audit.

(Based on PDP No.166)

MINISTRY OF DEFENCE PRODUCTION

CHAPTER-3

NATIONAL RADIO TELECOMMUNICATION CORPORATION (Pvt) Ltd

3. NATIONAL RADIO AND TELECOMMUNICATION CORPORATION (Pvt.) Ltd

3.1 Introduction

National Radio and 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 a 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 and 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**

NRTC 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 made.

AUDIT PARAS

3.1 Receivables

3.3.1 Non Recovery from the Client - Rs 231 Million

According to Clause 6.2 and 6.3 of the contract agreement dated 16.05.2014 made between M/s NRTC and IG Prison Punjab, 50% payment of the total contract value i.e. Rs 330 (M) will be paid to the NRTC at the time of signing of the contract and remaining 50% balance payment and GST will be paid through Letter of Credit. However, payment would be released by the bank after submission of bill or invoices by the NRTC as per actual jamming solutions installed and completion certificate issued by the purchaser.

M/s NRTC supplied 101 Jammers @ 3,838,537 each to the Inspector General of Prisons Punjab from September 2014 to May 2015 and subsequently the invoices were raised to the quarter concerned. An amount of Rs 156,678,000 has been released by the Superintendent Central Jail Lahore on 17.06.2014, whereas, the remaining amount of Rs 231,014,227 has not been recovered. The letter of credit dated 27.06.14 amounting to Rs 165 (M) for release of balance payment in favour of NRTC has expired on 24.09.2014 but the needful has not been done by the IG Prison Punjab Lahore.

The matter was reported to PAO and management in October and November 2015. It was replied during verification held on 15th and 16th December, 2015 that balance payment was pending because acceptance and completion against the contract was under process. The acceptance from the Jail has been received and funds allocated. Amount is expected to be received shortly. The reply of the management is not convincing as such matter has to be finalized without further delay and the arrears are lying outstanding since long.

DAC in its meeting held on 14th January, 2016, directed the management to recover the amount within a month and get it verified from Audit.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that the outstanding amount may be recovered from the concerned agency and be got verified from audit failing which disciplinary action should be initiated against the officials responsible for non recovery under intimation to Audit.

(Based on PDP No.124)

3.3.2 Non Recovery of Outstanding Dues from DG Munitions Production - Rs 72.834 Million

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

NRTC signed a contract with DG Munitions Production on 13.06.2012 amounting to Rs 1,659,564,008 for supply of 1000 Software Defined Radio Set (SDR). The ledger (20/ET/2010/Army) and Trial Balance of Finance Department has been compared with the original file, bill generated and amount received. It was found that the total outstanding amount as per ledger is shown as Rs 72.835 million whereas calculation made by audit from file depicts that the total outstanding amount is Rs 2.567 million. Hence, there is a difference of Rs 70.268 million which needs to be recovered.

The matter was reported to PAO and management in October and November 2015 and it was replied that the outstanding balance payment shall be received after acceptance of the modules.

DAC in its meeting held on 14th January, 2016, pended the Para till the final outcome of the case and its verification from Audit.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that the outstanding amount should be recovered within a month and got verified from Audit.

(Based on PDP No.130)

3.3.3 Short Receipt of Dues from DG CWO - Rs 11.156 Million

According to clause 3.1 of contract agreement, 80% payment (including freight, Insurance and 16% GST) shall be made against supplier bills duly supported with delivery advice and Inspection Note.

NRTC signed a contract with DG Communication and Works Organization (CWO) for establishment of maintenance facilities for Software Defined Radios (SDRs) and Land Mobile Radios (LMRs) on 28th June, 2013. M/s NRTC raised a bill of Rs 92,732,471 against delivered store on 3rd December, 2014. The Ministry of Finance released payment of Rs 74,942,479. Thus an amount of Rs 2,963,255 was paid short against delivered store. Moreover, Rs 8,192,530 on account of freight charges were deducted in violation of the above cited contract agreement.

The matter was reported to PAO and management in October and November 2015. It was replied during verification held on 15th and 16th December, 2015 that the matter for less receipt of amount and freight total amounting to Rs 11,155,785 has been taken up with the Ministry of Finance and Civil Works Organization, Rawalpindi for early release of deducted amount.

DAC in its meeting held on 14th January, 2016, directed the management to recover the amount and get it verified from Audit.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that the outstanding amount against delivered store and freight charges should be recovered and verified from Audit within a month.

(Based on PDP No.118)

3.3.4 Non Recovery from Director General Procurement (Army) - Rs 10.587 Million

According to Clause 8 of the contract agreement dated 30.03.2015, NRTC will tender 98 Vehicle Mounted Jammers (PK-100) to the COD Rawalpindi by 30th April, 2015. Further Clause 14 of contract agreement stipulates that 80% payment of the value of the consignment will be paid to M/s NRTC Haripur by CMA (DP) Rawalpindi on receipt of bills and the balance 20% will be paid on submission of bills. Further clause 23 (b) requires that Liquidity Damages for the period of delay in supply up to the rate of 2% of the value of unsupplied stores or subject to maximum 10% of the total value shall be deducted.

NRTC failed to recover the balance of Rs 10,586,901 from CMA (DP) Rawalpindi on 100% delivery of store. The requisite consignment was accepted and delivered to the army on 22nd May and 10th June, 2015. NRTC raised a bill against 100% delivered store amounting to Rs 153,300,420 out of which Controller Military Accounts (DP) Rawalpindi made payment of Rs 142,713,519 only.

The matter was reported to PAO and management in October and November 2015, It was replied during verification held on 15th and 16th December, 2015 that NRTC management had taken up the case for the less receipt of amount of Rs 6,132,017 deducted on account of liquidated damages @ 4% of the consignment being 2 months late. The LD has been waived off and bill for the release of amount has been forwarded to the CMA Rawalpindi. The complete detail of contract amount and particulars of receipt amount is given as under:-

| | | |
|------------------------------|---|-------------------|
| Contract Value excluding GST | = | Rs 131,026,000.00 |
| GST @ 17% | = | Rs 22,274,420.00 |
| Total Contract Value | = | Rs 153,300,420.00 |

3.3.4 Non Recovery from Director General Procurement (Army) - Rs 10.587 Million

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| | | |
|------------------------------|---|-------------------|
| Contract Value excluding GST | = | Rs 131,026,000.00 |
| GST @ 17% | = | Rs 22,274,420.00 |
| Total Contract Value | = | Rs 153,300,420.00 |

Deduction Made:

| | | |
|--|---|-------------------|
| 1/5 th of General Sales Tax | = | Rs 4,454,884.00 |
| 04% Penalty | = | Rs 6,132,027.00 |
| Net Received | = | Rs 142,713,519.00 |

The case for refund of LD amounting to Rs 6,132,027 has been taken up with the concerned agency.

The reply was misleading therefore not tenable as copy of challan regarding deposit of 1/5th of GST was not provided.

DAC in its meeting held on 14th January, 2016, directed the management to recover the amount within a month and verified from Audit.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that the outstanding amount should be recovered from the concerned agency as directed by DAC and verified from Audit.

(Based on PDP No.125)

3.3.5 Non Recovery of 50% Balance Payment US\$ 66,000

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

NRTC was given a work order by the Nigerian Chief of Air Staff for provision of 7 GSM Jammers on 20th August 2013. M/s NRTC delivered 06 Nos. GSM Jammers to Nigeria on 01.10.2014 and raised invoice amounting to US \$ 132,000. In this regard 50% advance payment was paid to M/s NRTC in advance through Telegraphic Transfer (TT), however, the remaining 50% payment of US\$ 66,000 (equivalent to Pak Rs 6.6 million) was not realized.

The matter was reported to PAO and management in October and November 2015. It was replied during verification held on 15th and 16th December, 2015 that 50% payment was received in advance and remaining amount is pending for final acceptance. Final acceptance is under process and amount will be realized soon, however, audit stress upon clearance of arrears without further loss of time.

DAC in its meeting held on 14th January, 2016, directed the management to recover the amount till June 2016 as per mutual arrangement between the Nigerian Government and M/s NRTC.

Therefore, Audit recommends that the outstanding amount may be recovered and get it verified from Audit.

(Based on PDP No.126)

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

CHAPTER-4

**NATIONAL INFORMATION
COMMUNICATION TECHNOLOGY
RESEARCH & DEVELOPMENT FUND**

4. NATIONAL INFORMATION COMMUNICATION TECHNOLOGY RESEARCH AND DEVELOPMENT FUND

4.1 Introduction

Federal Government established a Fund called the Research and Development Fund under sub section (1) of 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 and Communication Technology and other expenditure incurred by the Federal Government in managing Research and Development Fund. The Federal Government may coordinate 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 sectors.

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

National ICT R&D Fund management did not **provide the** annual audited accounts till finalization of the Report. Hence, no **comments on accounts** could be made.

AUDIT PARAS

4.3 Irregularities and Non Compliance

4.3.1 Unlawful Operation of PLS Bank Accounts and Retention of Balance - Rs 539.316 Million

According to para 5 of Standard Operating Procedure duly approved by the Controller General of Accounts vide letter No.272/AC-II/4-288/2006 dated 1.11.2013 Government shall transfer funds provided in budget grant of Federal and Provincial Government, as the case may be, to Public Account through AGPR or respective AGs. The licensees shall deposit contribution as prescribed by the Government in Public Account No.G-12783 through challan in SBP or NBP, as the case may be under the jurisdiction of Federal Treasury Office, Islamabad. Para 7 (a) further stipulates that the R&D Fund shall be utilized through a non lapsable Personal Ledger Account (PLA) which shall be operated by R&D Company

The management of R&D Fund was illegally operating two PLS bank accounts showing a balance of Rs 539.316 million as on 12th July, 2015 in violation of the above. The operation of PLS accounts were also against the approved R&D Standard Operating Procedures (SOP's), which states that the Fund and all accretions thereto from time to time shall be kept in the Fund account of the Federal Government maintained with the Federal Treasury Office, Islamabad and release from the Fund shall be made in accordance with these Rules. Detail is as under:-

| S. No | Bank Account No. (Old) | Bank Account No. (New) | Balance as on 12 th July, 2015 |
|--------------|-------------------------|----------------------------|---|
| 01 | 5454-5 (NBP, Islamabad) | 3000926875 (NBP Islamabad) | 1,453,053.84 |
| 02 | 6463-2 (NBP, Islamabad) | 3000932108 (NBP Islamabad) | 537,863,364.69 |
| Total | | | 539,316,418.53 |

The matter was reported to PAO and management in October 2015. It was replied in November 2015 that the amount pointed out relates to Azad Jammu and Kashmir (AJK) and Gilgit Baltistan (GB) for which the SOPs approved by the CGA are not applicable. Further, PLS account could not be closed due to anticipation of heavy return in form of accrued interest during July 2015.

The reply was misleading, therefore, not acceptable. The operation of PLS account was in violation of approved R&D fund Rules and SOPs. The contributions by the licensees required to be deposit in Public Account instead of PLS bank accounts.

DAC in its meeting held on 13th January, 2016 directed R&D management to close the PLS Bank account immediately and get it verified from Audit within two weeks.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be investigated at the level of Ministry, responsibility should be fixed on those who were responsible for violation of rules and operation of PLS accounts, failing which disciplinary proceeding should be initiated against the officials at fault within a month, under intimation to Audit.

(Based on PDP No.76)

4.3.2 Unlawful and Extravagant Expenditure on Legal Fee - Rs 3.792 Million

According to Para 3.3.6 of R&D Legal, Administrative and Financial Structure, General Manager Legal affairs will head the Legal affairs Department and shall be responsible for overseeing the legal issues of the R&D Fund Company. Major Duties and Responsibilities of the legal wing are drafting and reviewing contracts, agreements and other legal documents. Participating in contract negotiations and ensure compliance with all legal documentation

requirements. The General Manager for Legal affairs will directly report to the Chief Executive Officer (CEO). As per Law Division O.M dated 05.03.2004 legal advisors shall not be appointed without the approval of Law Division.

ICT R&D Fund Company management hired different lawyers on hourly basis remuneration and incurred an expenditure of Rs 3,792,625 on account of legal consultancy. The expenditure was considered as unlawful and extravagant because the Company had its own legal wing with a comprehensive ToRs. In the presence of law officers of the Company, there was no justification for hiring the legal firms on hourly basis. Further, the hiring of legal consultants was without approval of the Law, Justice and Parliamentary Division. Detail is as under:-

| S.No | Voucher No and date | Description | Name of Firm | Amount (Rs) |
|--------------|---------------------|--|------------------------|------------------|
| 1. | 001/03.10.2014 | Consultancy services acquired for the month of June and July 2014 @ Rs 25,000 per hour | M/s RiaaLaw, Islamabad | 772,000 |
| 2. | 047/16.12.2014 | Full and final payment of legal consultancy services @ Rs 25,000 per hour | M/s RiaaLaw, Islamabad | 250,000 |
| 3. | 037/18.02.2015 | Consultancy services acquired for the month of September 2014 @ Rs 25,000 per hour | M/s RiaaLaw, Islamabad | 1,361,000 |
| 4. | 149/30.06.2015 | Consultancy services acquired February to June 2015 @ Rs 25,000 per hour | M/s RiaaLaw, Islamabad | 1,409,625 |
| TOTAL | | | | 3,792,625 |

The matter was reported to PAO and management in September 2015. It was replied that the company had no legal services in July 2014 and March 2015. Therefore, the expenses incurred in this head were regular in nature as the company was without in house legal counsel. Furthermore, the legal services encompass a variety of areas which may not be the domain of a deputy manager legal requiring services of consultant lawyer.

The reply was misleading, therefore, not acceptable as the consultancies were not of a complicated nature but only regarding drafting of notice of contract expiration, response to queries, reading documents for opinion related to termination of an employee etc.

DAC in its meeting held on 11th January, 2016 took a serious view and directed to discontinue the present practice of hiring of legal firms on hourly basis immediately. It was further directed to establish whether the expenditure already incurred was within the approved policy.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be investigated, responsibility fixed and disciplinary actions be taken against those who hired legal consultants on an hourly basis, at exorbitant rates under intimation to Audit.

(Based on PDP No.66)

4.4 Observations Regarding Performance

4.4.1 Irregular Expenditure Against Unsolicited Technical R&D Projects - Rs 665.6 Million

According to Section 2.1 of Operational Manual the R&D Fund Board will be responsible for the identification of themes i.e. the specific areas that will be invested in, during a certain time frame. Section 2.2.1 *ibid* states that the Board shall review themes and areas for funding on annual basis. Section 2.2.2 further stipulates that for all subsequent years following the first year, in which the Board on its own decides the thematic focus, it would be responsibility of the CEO to present a thematic plan and a proposed budget to support those thematic focuses on an annual basis.

R&D Fund neither prepares solicited projects nor presented them in the

Board as a result all funding amounting to Rs 665.6 million was made in unsolicited projects. All proposals were submitted by private individuals and were approved by the CEO. Moreover, none of the projects have been completed to date.

The matter was reported to PAO and management in September 2015. It was replied that for the period 2014-15, no Technical R&D Project has been approved by the Company. During the same period, Board has revoked the authority of CEO to approve projects and given it to Project Appraisal Committee (PAC).

The reply was misleading, therefore, not acceptable. All the expenditure was incurred against unsolicited projects in violation of the provisions of the operational manual of ICT R&D Fund and no solicited project was approved.

DAC in its meeting held on 11th January, 2016 directed to get the record verified from Audit regarding solicitation proposal if any within a month.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be investigated, responsibility fixed and disciplinary action be taken against those who violated the laid down procedures in the operational manual under intimation to Audit.

(Based on PDP No.70)

4.4.2 Non Commercialization of 35 Technical R&D Projects worth Rs 598.76 Million in violation of the R&D Rules

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.

The management of ICTR&D Company allocated Technical R&D Projects to Principal Investigators (PIs) and Principal Investigating Officer (PIO) worth Rs 598.76 million. After completion of these projects the Board as well as Management of ICTR&D Company did not devise any policy towards the commercialization of these R&D Projects.

The issue was also highlighted during the Audit of 2013-14 and para was discussed in DAC meeting held on 18th December, 2014 in which it was directed that the management finalize the policy regarding registration of Intellectual Property Rights (IPR) and commercialization of Technical R&D projects and get it approved from the Board. Moreover, actions on all the completed projects in the light of approved policy be taken and compliance be got verified from audit. Despite the clear directions of the DAC nothing was done by the management of ICT R&D Company till date which is indicative of weak internal controls in the organization.

The matter was reported to PAO and management in September 2015. It was replied that the Board in its 27th Board meeting held on 15.07.2013 had taken up the matter of Commercialization and instructed management to develop a mechanism for royalty and IP rights so that the Government starts getting regular revenue through commercialization of its successful funded projects. The Company is currently working on identifying projects which have the potential for commercialization and will present its report to Project Appraisal Committee (PAC) for further guidance.

The management accepted the irregularity in its reply. Therefore, Audit requires that the working already started for commercialization of the projects should be finalized without further loss of time and verified from audit within a month.

DAC in its meeting held on 11th January, 2016 upheld its earlier decision and further directed to get its policy of commercialization approved from the Board of Directors of technical R&D projects, within a month.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that responsibility should be fixed and strict disciplinary actions should be initiated against the officials who did not comply with the previous DAC directives, under intimation to Audit.

(Based on PDP No.69)

4.4.3 Loss due to Non Repossession of Assets - Rs 103.089 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 and 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.

Assets amounting to Rs 103.089 million were procured by the PIs in various technical R&D Projects but ICT R&D Company' neither recovered these assets from the PIs nor were they accounted for on completion of the projects. This resulted in loss to the company to that extent.

The matter was reported to PAO and management in September 2015. It was replied that management agrees with the audit findings. However, the Board in its 38th meeting resolved that final decision of the equipment repossession policy has been deferred and same would be taken up again at a later stage.

The reply was not acceptable because the management failed to formulate a comprehensive policy for the re possession of the Assets procured by the PIs from the contribution of ICT R&D Fund and its approval despite pointing out by Audit in previous Audit Report.

DAC in its meeting held on 13th January, 2016 directed the management to get the approval of the policy by the Board of Directors which should clearly indicate directives for repossession of assets, within a month.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be investigated at Ministry level as to why proper policy was not formulated as required in the operational manual. Disciplinary proceedings should be initiated and responsibility be fixed for the loss besides recovery against those who were at fault under intimation to Audit.

(Based on PDP No.72)

4.4.4 Delayed Evaluation of Technical R&D Projects Resulting into Loss - Rs 64.86 Million

According to Section 4.3.3.1 of the operational manual the unsolicited projects will be evaluated by the Manger Project Evaluation (MPE). No Standard Evaluation Criteria are defined for this purpose. These projects will be marked or evaluated according to their scale, priorities and design, however some basic requirements will be considered while evaluating these projects such as importance of the project according to the priorities defined in the road map, nature of the project, scale of the project, duration of the project and its commercialization potential.

The management of ICT R&D Fund Company sponsored 12 projects after making internal evaluation only. As per clause 4.3.3.10 of Operations Manual, the external evaluators are required to provide their opinion in respect

of the proposal within 14 days. However, external evaluation was not carried out and the company incurred expenditure of Rs 64.86 million but the Board declared the projects as unsatisfactory, as per the report of the external auditor and consequently stop the funding. This resulted in loss to the company.

The matter was reported to PAO and management in September 2015. It was replied that all unsolicited projects have clear defined evaluation criteria and are placed under the approved thematic areas. No project was approved without completion of all laid down formalities of proposal evaluation.

The reply was misleading, therefore, not acceptable. The Board has the final authority as per approved manuals of ICT R&D Fund and the Board declared the projects as unsatisfactory. The major reason was the failure of external evaluators to provide evaluation report within 14 days.

DAC in its meeting held on 13th January, 2016 directed ICT R&D Fund Company for verification of outcome of the projects from Audit within a month.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be investigated, responsibility fixed and disciplinary action should be taken against those who allowed carrying out the projects without external evaluation reports besides recovery of the amount from the persons held responsible under intimation to Audit.

(Based on PDP No.71)

4.5 Receivables

4.5.1 Non Recovery of Outstanding R&D Dues from Telecom Operators - Rs 2,199.464 Million

According to condition 4.1 of Long Distance International (LDI) License

issued under section 21 of the Pakistan Telecommunication (Re-organization) Act, 1996, in any financial year of licensee, the licensee shall make a contribution to the Research and Development Fund @ 0.5% of the Licensee's annual gross revenue from Licensed Services for the most recently completed financial year of the Licensee minus inter-operator payments and related PTA and FAB mandated payments. Clause 4.2.2 further stipulates that the Licensee shall make this contribution within 120 days of the end of financial year.

National ICT R&D Fund management failed to recover an amount of Rs 2,199,463,753 on account of R&D contributions from the operators as apparent from receivable ledgers maintained by PTA. The R&D Fund neither maintains receivable ledgers nor retains the copies of the demand notes issued by PTA which showed ineffective receivable management and weak internal controls.

The matter was reported to PAO and management in October 2015. It was replied in November 2015 that demand notes were not regularly shared with the MoIT by PTA. Therefore, the Fund management is not in a position to realize the unknown amount. Moreover, the responsibility related to the realization of fund remains with PTA as mandated by the Rules. MoIT is in process of reconciliation with PTA to address such matters.

The reply was misleading, therefore, not acceptable because R&D Fund management was responsible for the recovery of the dues as per SRO issued by MoIT dated 5th July, 2013 onwards. It was the responsibility of Fund management to obtain the copies of demand notes from PTA for ensuring the recovery of the actual dues.

DAC in its meeting held on 13th January, 2016 directed R&D management to get the recovered amount verified from Audit within a month.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be investigated and responsibility fixed against the officials for non recovery and non compliance of the DAC directives within the agreed time under intimation to Audit.

(Based on PDP No.81)

4.5.2 Non Recovery of PSDP Share from Government of Pakistan - Rs 937.326 Million

According to para 6 (capital cost estimates) of approved PC-I the MoIT through PSDP and National ICT R&D fund will bear the project cost on equal sharing basis i.e 50% by MoIT (PSDP) and 50% by ICT R&D Fund. Further, Rule 28 of GFR Vol-I states that no amount due should be left outstanding without sufficient reason.

The project titled “National ICT Scholarship Program” was approved by the ECNEC at a total cost of Rs 2,414.84 million. However, the statement of funds and expenditure revealed that an amount of Rs 270.094 million was received from PSDP from 2009-10 to 2014-15 whereas ICT R&D Fund management incurred an expenditure of Rs 2,665.056 million. This resulted into less receipt of share Rs 937.326 million from MoIT (PSDP) than the actual share.

The matter was reported to PAO and management in September 2015. It was replied that efforts had been made by the Company to get its due share but could not do so due to means beyond its control. However, this program is no longer part of the current PSDP projects under MoIT.

The reply was evasive, therefore, not tenable because the actual sharing was 50% by MoIT and 50% by PSDP, hence, actual recoverable from PSPD comes to Rs 937.326 million. Recovery of the 50% share from the Government was the responsibility of the Company which it failed to do so.

DAC in its meeting held on 11th January, 2016 directed to provide the final decision of the Board on the subject matter to Audit for verification within

two weeks.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be investigated, responsibility fixed and disciplinary action be taken against the officials at fault for non recovery under intimation to Audit.

(Based on PDP No.65)

4.5.3 Un-reconciled Receivables on Account of R&D Contributions - Rs 213.163 Million

According to Para 8 of GFR Vol-I, it is the duty of the department concerned to see that the dues of Government are correctly and promptly assessed, collected and paid into the treasury.

PTA showed an amount of Rs 213,163,842 in its ledgers on account of R&D contributions as direct deposit in MoIT account. However, the comparison of the receivable sheets provided to Audit by the R&D Fund did not show any receipt. This resulted into non deposit of actual amount of the contribution in the Public Account.

The matter was reported to PAO and management in October 2015. It was replied in November 2015 that the amount has already been deposited in the Public Account of R&D Fund.

The reply was misleading, therefore, not acceptable because the recovery statement attached with the reply did not show the amounts as pointed out by audit except the amount of Rs 2,157,747.

DAC in its meeting held on 13th January, 2016 directed R&D management to reconcile the figures with PTA and get it verified from Audit within two weeks.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be investigated at Ministry level, responsibility fixed and disciplinary proceedings initiated against those at fault for non recovery of Government dues and non compliance of the DAC directives under intimation to Audit.

(Based on PDP No.78)

4.5.4 Short Realization on Account of R&D Contributions - Rs 124.458 Million

According to condition 4.1 of Long Distance International (LDI) License issued under section 21 of the Pakistan Telecommunication (Re-organization) Act, 1996, in any financial year of licensee, the licensee shall make a contribution to the Research and Development Fund established by the Government of Pakistan in an amount calculated on the basis of 0.5% of the Licensee's annual gross revenue from Licensed Services for the most recently completed Financial Year of the Licensee minus inter operator payments and related PTA and FAB mandated payments. Clause 4.2.2 further stipulates that the licensee shall make this contribution within 120 days of the end of financial year.

PTA issued demand notes after deducting the Sales Tax and Federal Excise duty from the Gross Revenue for the purpose of calculation of R&D Contributions in violation of the above rule. This resulted in less realization of Rs 124,457,790 as detailed below:-

| S.No | Name of the Companies | Less realization (Rs) |
|--------------|-----------------------|--------------------------|
| 01 | M/s Mobilink | 79,507,791 |
| 02 | M/s Ufone | 44,949,999 |
| TOTAL | | 124,457,790 |

The MoIT being custodian of the Fund did not check the demand notes and booked the recovery as paid by the operators. This showed weak receivable management on the part of MoIT.

The matter was reported to PAO and management in October 2015. It was replied in November 2015 that the demand notes to the operators were issued by PTA as per its mandate. The MoIT has no mechanism to check the accuracy of the billing. The demand note issued by the PTA does not contain any such detailed calculations related to the sales tax adjustment. Thus, the fund management remained unaware of such falsification in its billing.

The reply was misleading, therefore, not acceptable because MoIT is responsible for the recovery of dues. Therefore, accuracy of demand notes should be checked by the Fund management to ensure the recovery of the Government dues.

DAC in its meeting held on 13th January, 2016 directed R&D management to pursue the case with PTA immediately for realization of outstanding amount and get it verified from Audit.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be investigated, and responsibility fixed on those at faults besides recovery of the amount involved. Failing which strict disciplinary proceedings should be initiated under intimation to Audit.

(Based on PDP No.82)

4.5.5 Non Realization of Receivables from M/s Telecard Ltd - Rs 8.414 Million

According to Para 8 of GFR Vol-I subject to such general or specific instructions as may be issued by Government in this behalf, it is the duty of the Revenue department concerned to see that the dues of Government are correctly and promptly assessed, collected and paid into the treasury.

M/s Telecard Limited was liable to pay the dues of Rs 8,413,506 on account of R&D within 07 days after decision of the Authority. The receivable

sheet of Fund management provided to Audit did not show any receipt of the above dues which resulted into non realization of the receivables.

The matter was reported to PAO and management in October 2015 and it was replied in November 2015 that the observed amount has already been deposited into the Public Account.

The reply was evasive, therefore, not acceptable because R&D Fund management failed to provide the documentary evidence of recovered amount during Audit and discussion in DAC.

DAC in its meeting held on 13th January, 2016 directed R&D management to pursue the case with PTA for realization of outstanding amount and get it verified from Audit within a month.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that responsibility should be fixed for non realization of Government dues in time, besides recovery of the amount involved under intimation to Audit.

(Based on PDP No.80)

4.5.6 Unlawful Appointment of Manager Human Resource

According to the advertisement and provisions contained in para 3.3.8 of the Legal and Administrative Manual of R&D the pre requisite for the appointment of Manager HR were that he or she should have a MBA degree from a well reputed university with specialization in Management or Human Resources; should have at least 5-7 years relevant experience preferably in an Multinationals Company (MNC) environment; and must possess good communication skill, be highly motivated and be able to think out of the box to provide solutions in high pressure situation. Furthermore, Agenda item 3 of minutes of the 33rd meeting of the Board of Director dated 27th January, 2015

the CEO is empowered for selection of tier II employees on recommendation of Internal Committee.

It was observed that two rounds of interview were conducted. In second round 06 candidates were interviewed by the HRGC committee on 9th February, 2015 as per approval of the Board of Director which unanimously recommended one applicant Mr. Anjum Rafiq. However, later on the candidate was not recommended by the CEO who decided recruitment through head hunting services. As a result M/s Carrier Pakistan provided resumes of 6 candidates which were again interviewed by the HRGC committee after which 3 candidates were recommended. Finally the CEO selected the candidate Ms.Mehwish Tariq as Manager HR.

The above actions of the CEO were against the decision of the Board, powers delegated to him and against the recommendation of the internal committee. The whole process adopted for the recruitment of Manager HR was against the above mentioned provisions of ICT R&D's own manual and decisions of the Board of Directors. Therefore, the recruitment of Manager HR stands unlawful.

The matter was reported to PAO and management in September 2015. It was replied that the Board in its 33rd meeting approved that CEO shall be the hiring authority for tier-II employees under recommendation of HRGC.

The reply was misleading, therefore, not acceptable. The Board had delegated the powers for hiring of tier-II employees to the CEO only on the recommended action by the HRGC. The HRGC conducted two rounds of interview but the CEO misused his powers and ignored the recommendations of the HRGC committee. The question of demand of salary could be addressed at the level of interview and finalization of the recommendations by the interview committee. The process adopted by the company clearly showed favoritism in appointment and misuse of the powers by the CEO.

DAC in its meeting held on 13th January, 2016 directed the management to conduct the fact finding inquiry at the level of the Ministry, which is necessary, even though the case was being pursued in FIA and NAB.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be investigated at MoIT level for fact finding and disciplinary proceedings should be initiated and responsibility fixed against the officials at fault under intimation to Audit.

(Based on PDP No.183)

4.5.7 Irregular Appointment of Manager Corporate Affairs

According to Para 10 to 19 of Civil Servant (Appointment, Promotion and Transfer) Rules, 1973 a detail procedure for appointments have been elaborated. Further, according to the para 10.1.4 of the Operation Manual of ICT R&D Fund, within one year of the functioning of the Company the Board will hire independent Consultants for developing a comprehensive HR Policy of the Company covering all the aspects of Human Resource in detail.

Review of minutes of 45th HRGC meeting dated 16th April, 2015 revealed that the post of General Manager Corporate Affairs was advertised on 15th March, 2015. Total 292 applications were received and 89 applications met the basic advertised criteria. Eleven candidates were shortlisted after detailed analysis for interview. HRGC interviewed all candidates who appeared and finally recommended three candidates for the position of GM Corporate Affairs as per following order of merit:

1. Mr. Shehzad Safdar
2. Mr. Usman Farooqui
3. Mr. Asad Nadeem

The salary sheets for the month of June 2015 (Sl.No.05) provided to

Audit showed that Mr. Usman Farooqui had been appointed as General Manager Corporate Affairs by ignoring the first candidate in order of merit declared by the HRGC.

The matter was reported to PAO and management in September 2015. It was replied that recommendations were non binding in nature unless specified by the Board resolution. It was acknowledged by HRGC that all these nominees were candidates of high caliber. However, selecting the right candidate in this case meant the diversity of past experience along with relevant skill set for the position.

The reply was misleading, therefore, not acceptable because the record clearly showed that appointment letter was issued by ignoring the top candidate which was against the provisions of Rules, Regulations and standing instructions.

DAC in its meeting held on 13th January, 2016 directed the management to conduct the fact finding inquiry at the level of the Ministry, which is necessary, even though the case was being pursued in FIA and NAB.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be investigated at MoIT level for fact finding and disciplinary proceedings should be initiated and responsibility fixed against the officials at fault under intimation to Audit.

(Based on PDP No.184)

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 and 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 of Pakistan, 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 and institutions as the Federal Government may determine.

5.2 COMMENTS ON BUDGET AND ACCOUNTS

NTC 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 made.

AUDIT PARAS

5.3 Irregularity and Non Compliance

5.3.1 Unlawful Investment of Funds - Rs 2,054.53 Million

NTC has been established through Telecommunication (Reorganization) 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, the Ministry of Finance 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 the Ministry of Finance and the amount of working balance may be maintained in the current or SB account.

NTC management invested an amount of Rs 2,054.530 million in commercial banks whereas it can invest its working capital of Rs 300 million as per approved policy. The investment was made without any approval from the Ministry of Finance in violation of the above rules. Detail is as under:

| S.No | Name of Bank | Date and rate of Investment | Amount (Rs) |
|--------------|--|-----------------------------|----------------------|
| 01 | Bank Alfalah, Blue Area, Islamabad | 30.06.2015 @ 7.20% pa | 1,012,145,797 |
| 02 | Allied bank Limited, Super Market, Islamabad | 29.06.2015 @ 7.20% pa | 938,145,205 |
| 03 | Allied bank Limited, Super Market, Islamabad | 29.06.2015 @ 7.20% pa | 104,238,356 |
| TOTAL | | | 2,054,529,358 |

The matter was reported to PAO and management in November 2015. It was replied that the funds available as working balance of the Corporation are

Rs 300 million and other funds that are committed against ADP and Accrued Liabilities.

The reply was misleading, therefore, not tenable as NTC made aforesaid investment with commercial banks without any legal authority. Further, working balance of the Corporation was Rs 300 million and investment of Rs 2,054 million was made in addition to Pension, Benevolent and GP Fund Investment.

DAC in its meeting held on 12th and 13th January, 2016 directed that the case be referred to the Ministry of Finance for approval of the extent to which NTC can make investments.

No progress was intimated till the finalization of this Report.

Therefore, Audit recommends that approval of Ministry of Finance may be sought for this huge investment. The surplus amount may be transferred to Federal Consolidated Fund without further loss of time. Moreover, the practice to make investment with private banks may be discontinued at once under intimation to audit and the Rules and Regulations for the establishment, maintenance and operation of employees' fund may also be got approved from the administrative ministry in consultation with Ministry of Finance as per recommendation made by the external enquiry committee constituted by MoIT vide notification No. 2 (8)/2006-(F and A) dated 29th April, 2008 under intimation to Audit.

(Based on PDP No.196)

5.3.2 Colossal Loss Due to Unlawful Investment - Rs 325.081 million

According to 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.

NTC management invested Rs 325.081 million with Innovative Bank. Later on, the bank was liquidated and funds of the Corporation could not be recovered which could have been transferred to Federal Consolidated Fund (FCF).

The matter was reported to PAO and management in November 2015. It was replied that NTC had deposited the amount during 2004-06 with the understanding that the Bank affairs are run professionally under the control of SECP. DAC had already given its decision as “Investment was made in violation of clause 9 of the SRO dated 8th February, 1999 and para 4 of Ministry of Finance O.M. dated 2nd July, 2003. DAC directed to accelerate the process of recovery through effective follow up measures to avoid loss to the state. Matter may also be enquired into as per recommendation of Audit.”

The reply was misleading, therefore, not acceptable as the case was around 10 years old and receivables of the Corporation could not be made good and effective. The practice to make investment with private banks is still continuing irrespective of such a colossal financial loss.

DAC in its meeting held on 12th and 13th January, 2016 directed NTC to pursue the court case for early recovery of invested amount with bank and final outcome be provided to PAO and Audit.

No progress was intimated till the finalization of this Report.

Therefore, Audit recommends that the case of recovery of amount may be persuaded vigorously through the Court of Law or through a liquidator in addition to stop the practice of making investment of Corporation funds with private banks. A fact finding inquiry at PAO level should be made for fixation of responsibility under intimation to Audit.

(Based on PDP No.202)

5.3.3 Loss Due to Fire - Rs 105 Million

Rule 20 (1) of GFR Vol-I stipulates that any loss of public money, departmental revenue or receipts, stamps, opium, stores or other property held by or on behalf of Government, caused by defalcation or otherwise, which is discovered in a treasury or other office or department, should be immediately reported by the officer concerned to his immediate official superior as well as to the Accountant General, even when such loss; has been made good by the party responsible for it.

A fire incident occurred on 28.09.2014 in the PTCL building at Egerton Road Lahore where the NTC Data Centre and Transmission Hall were also situated. The fire spread out in whole building, resultantly NTC's valuable equipment got damaged and burnt. An approximate loss of Rs 105 million has been worked out. No detailed inquiry was held to ascertain the cause of fire and to recover the loss.

The matter was reported to PAO and management in September 2015. It was replied that NTC has taken up the case with MoIT&T being controlling authority for recovery of NTC claim against the subject loss.

The reply was misleading, therefore, not acceptable as no one was held responsible for such colossal loss to NTC. Further, the subject loss could not be recovered by NTC.

DAC in its meeting held on 12th and 13th January, 2016 directed NTC management to take up the matter with PTCL within a month. DAC further decided to place the para before PAC.

No further progress was reported till finalization of this report.

Therefore, Audit recommends for immediate compliance of the DAC directives along with conducting a fact finding inquiry under intimation to Audit.

(Based on PDP No.58)

5.3.4 Unlawful Investment of Benevolent Fund - Rs 41.828 Million

According to 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.

NTC management invested Benevolent Fund amounting to Rs 41,827,697 with National Bank of Pakistan, PARC branch, Islamabad as detailed below:-

| S.No | Name of Bank | Issue date | Due date | Balance as on 30-06-15 |
|--------------|--------------|------------|------------|------------------------|
| 01 | NBP | 20-06-2014 | 19-06-2015 | 32,125,706 |
| 02 | -do- | 05-03-2015 | 05-03-2016 | 2,248,944 |
| 03 | -do- | 11-03-2015 | 11-03-2016 | 6,110,609 |
| 04 | -do- | 09-04-2015 | 09-04-2016 | 1,342,438 |
| Total | | | | 41,827,697 |

The matter was reported to PAO and management in November 2015. It was replied that the funds available are working balance of the Corporation which is Rs 300 million and includes other funds that are committed against ADP and Accrued Liabilities.

The reply was misleading, therefore, not tenable as the investment was made without any legal authority.

DAC in its meeting held on 12th and 13th January, 2016 directed that the case be referred to the Ministry of Finance for clarification and approval to the extent of the amount invested in the private banks.

No further progress was intimated till the finalization of this Report.

Therefore, Audit recommends that approval of the Ministry of Finance may be sought for this huge investment. The amount other than contribution made by employees may be transferred to Federal Consolidated Fund without further loss of time under intimation to Audit.

(Based on PDP No.198)

5.3.5 Irregular Award of Work Without Retendering - Rs 23.596 Million

According to Rule 40 of PPRA Rules 2004, there shall be no negotiations with the bidder having submitted the lowest evaluated bid or with any other bidder.

NTC management awarded the work of supply, installation, testing and commissioning of Session Border Controller (SBC) to M/s DWP for Rs 23,596,560 after negotiations with the lowest bidder instead of retendering.

The matter was reported to PAO and management in November 2015. It was replied that the subject tender was floated in print and electronic media and the same was opened on 18-11-2014. The work was awarded to the lowest bidder. It is further clarified that M/s DWP offered voluntary discount and NTC did not enter into negotiations with the bidder.

The reply was not tenable being in violation of the PPRA Rules and recommendations of the tender evaluation committee. NTC management should go for retendering instead of accepting voluntary discount after opening of the bids.

DAC in its meeting held on 12th and 13th January, 2016 directed NTC to conduct a facts finding inquiry within 45 days and submit report to PAO and Audit.

No further progress was intimated till the finalization of this Report.

Therefore, Audit recommends that the DAC directives should be

implemented failing which disciplinary action should be initiated against those at fault under intimation to Audit.

(Based on PDP No.192)

5.3.6 Non Recovery of Interest on Investments - Rs 17.685 Million

According to 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.

NTC invested its surplus funds with Crescent Bank, however the interest accrued was not received till 30th June, 2015. The detail is as under:

| S. No | Issue date | Due date | Balance as on 01-07-14 | Activity during the year | Balance as on 30-06-15 |
|-------|------------|------------|------------------------|--------------------------|------------------------|
| 01 | 07-12-2005 | 07-06-2006 | 2,757,534 | Nil | 2,757,534 |
| 02 | 19-03-2006 | 19-09-2006 | 4,229,589 | Nil | 4,229,589 |
| 03 | 16-01-2006 | 16-07-2006 | 3,138,082 | Nil | 3,138,082 |
| 04 | 07-12-2004 | 07-06-2005 | 1,495,890 | Nil | 1,495,890 |
| 05 | 31-12-2005 | 30-06-2006 | 5,734,246 | Nil | 5,734,246 |
| 06 | 16-01-2006 | 16-07-2006 | 157,007 | Nil | 157,007 |
| 07 | 31-12-2005 | 30-06-2006 | 172,972 | Nil | 172,972 |
| | | | | | 17,685,320 |

The matter was reported to PAO and management in November 2015. It was replied that NTC is making continuous efforts to recover the money and a lot of correspondence has been made in this regard.

The reply was misleading, therefore, not acceptable as the case was around 10 years old and receivables of the Corporation could not be recovered. The practice to make investment with private banks is still continuing irrespective of such a colossal financial loss.

DAC in its meeting held on 12th and 13th January, 2016 directed NTC to pursue the case for early recovery of interest accrued and final outcome be provided to PAO and Audit.

No further progress was intimated till the finalization of this Report.

Therefore, Audit recommends that the case of recovery of amount should be pursued vigorously through the Court of Law or through a liquidator. Moreover, a fact finding inquiry at PAO level should be made for fixation of responsibility for the loss under intimation to Audit along with discontinuation of making investments in the private banks under intimation to Audit.

(Based on PDP No.197)

5.3.7 Irregular Expenditure on Procurement without Tendering - Rs 2.296 Million

According to Rule 12 (1) of PPRA 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 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 2,296,131 on procurement of Zyxel spares during 2014-15 from three different suppliers without inviting open tenders as detailed below:-

| S.No | Voucher No. and Date | Description | Name of Supplier | Amount (Rs) |
|--------------|----------------------|-------------------------|--------------------|------------------|
| 01 | 146/30-09-2014 | Supply of Zyxel Spares | M/s Real Solutions | 1,144,026 |
| 02 | 135/23-01-2015 | Supply of Zyflex Spares | M/s Synchcom | 300,532 |
| 03 | 121/23.06.2014 | Supply of Zyxel Spares | M/s Delphy Global | 851,573 |
| Total | | | | 2,296,131 |

The procurement was made at different times in a single year by claiming these items as proprietary items, even though this item was supplied by three different suppliers.

The matter was reported to PAO and management in November 2015. It was replied that the procurement was made under PPRA Rule 42 d (ii), whereas M/s Zyxel had declared M/s Real Solution, M/s National Engineers and M/s Delphi Global as authorized dealers.

The reply was not tenable as the procurement was made at different times in a year being proprietary items from different suppliers. This showed that items were not of proprietary nature and procurement was made just to avoid tendering. The Corporation was deprived off from the competitive rates due to procurement made without tendering.

DAC in its meeting held on 12th and 13th January, 2016 directed to seek clarification from PPRA on the subject matter.

No further progress was intimated till the finalization of this Report.

Therefore, Audit recommends for immediate compliance and implementation of the DAC directives under intimation to Audit.

(Based on PDP No.195)

5.3.8 Irregular Award and Extension of Contract to M/s Askari Guard - Rs 1.592 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.

NTC management signed a contract agreement with M/s Askari Guards (Pvt.) Ltd on 27th May, 2014 and further extended till 30th May, 2016 with an increase of 9.5% in the rates. The contract was awarded by ignoring the first lowest M/s Security Services (Pvt.) Ltd. An amount of Rs 1,592,500 was paid to M/s Askari Guards during 2014-15 which stands irregular being in violation of the PPRA Rules 2004.

The matter was reported to PAO and management in November 2015. It was replied that the approving / competent authority, in exercise of the powers cancelled the tender, instead of approving the award of work in favor of M/s Safety and Services.

The reply was not tenable as the committee constituted for the purpose recommended award of work to lowest bidder i.e. M/s Safety and Security Services (Pvt.) Ltd. after conducting of Technical Evaluation Report. Further, In January, 2015 the Safety Security was considered technically fit for awarding of contract. But in April and May 2015 the same was considered as technically disqualified and its lowest financial bid was rejected.

DAC in its meeting held on 12th and 13th January, 2016 pended the para and directed NTC to conduct a fact finding inquiry within 45 days and report to PAO and Audit.

No progress was intimated till the finalization of this Report.

Therefore, Audit recommends that an inquiry into the matter may be conducted and responsibility be fixed and disciplinary action be taken on those responsible for this irregular award of contract under intimation to Audit.

(Based on PDP No.191)

5.4 Observations Regarding Performance

5.4.1 Loss due to Unauthorized Operation of PERN Project - Rs 149.064 Million

Section 41 (3) of Pakistan Telecommunication (Reorganization) Act, 1996, license condition 2.1 of NTC and instructions issued by the Cabinet Division and MoIT, the role of NTC has been defined for providing telecommunication services within Pakistan on a non exclusive basis only to its designated customers which include armed forces, defense projects, Federal Government, Provincial Governments or such other Governmental agencies or Government institutions as Government may determine.

A project namely Pakistan Education Research Network (PERN) was started in September 2002 to link all public and private sectors universities registered with the Higher Education Commission of Pakistan (HEC). The PC I of the project was prepared by NTC and approved by Executive Committee National Economic Council (ECNEC) in February, 2002 through contribution of Rs 149.064 million by Public Sector Development Program (PSDP). The execution, operation and maintenance of the project was assigned to NTC but the project is presently being maintained and controlled by HEC with collaboration of private sector telecom operators. The benefits of the project could not be accrued by NTC.

The matter was reported to PAO and management in November 2015. It was replied that NTC was actively pursuing the case of PERN Project with all the concerned quarters.

The reply was evasive, therefore, not acceptable as concrete and effective efforts were not made by NTC to take back the charge of PERN project which was funded by PSDP.

DAC in its meeting held on 12th and 13th January, 2016 linked this para with PAC directives of similar nature para. The PAC in its meeting held on 19th

May, 2010 and 24th January, 2011 had deferred the para with the direction to get it checked and report within two weeks to the PAC. It was further directed that if required HEC may be asked to be present in the next meeting along with NTC.

No further progress was intimated till the finalization of this Report.

Therefore, Audit recommends that responsibility should be fixed for non compliance of the PAC directives despite lapse of four years. Moreover, NTC should take over the charge of PERN project which was funded by the PSDP and provide telecommunication services to its designated customer to save itself from further financial loss under intimation to Audit.

(Based on PDP No.203)

5.4.2 Unlawful Provision of Telecom Services by M/s Nayatel

According to section 41 (3) of Pakistan Telecommunication (Re-organization) Act, 1996, license condition 2.1 of NTC issued by PTA and time to time instructions issued by the Cabinet Division and MoIT, the role of NTC has been defined and mandated to provide telecommunication services within Pakistan on a non exclusive basis only to its designated customers which include armed forces, defense projects, Federal Government, Provincial Governments or such other Governmental agencies or Government institutions as the Federal Government may determine.

NTC is mandated to provide telecom services to designated customers, however, private operators like Nayatel have taken away its business. Moreover, PTA issued a decision in favour of private telecom operators that they could provide telecom services to NTC designated customers.

The matter was reported to PAO and management in November 2015. It was replied that the PTA decision was agitated with Secretary Cabinet Division as PTA set aside government directives. The matter was also brought into the

notice of Secretary MoIT and State Minister for Information Technology. Further the case in Islamabad High Court is being pursued by NTC for reversal of PTA decision in favour of M/s Nayatel.

The reply was evasive, therefore, not tenable as private operators continued to provide telecommunication services to the designated customers of NTC.

DAC in its meeting held on 12th and 13th January, 2016 directed NTC to pursue the court cases and outcome be provided to PAO and Audit.

No further progress was intimated till the finalization of this Report.

Therefore, Audit recommends that NTC should pursue the court case vigorously. Moreover, the issue can also be taken up with the CGA (Controller General of Accounts) to stop the payments on bills pertaining to private telecom operators without provision of NOC from NTC under intimation to Audit.

(Based on PDP No.200)

5.5 Receivables

5.5.1 Non Recovery of Outstanding Dues from the Subscribers - Rs 47.955 Million

Rule 8 and 26 of GFR Vol-I stipulates that it is the duty of the departmental controlling officers to see that all sums due to government are regularly and promptly assessed, realized and duly credited in the Public Account. No amount due to government should be left outstanding without sufficient reasons, and where any dues appear to be irrevocable the orders of competent authority for their adjustment must be sought.

NTC management failed to recover an amount of Rs 47,955,018 from various designated customers on account of working connections, closed connections, Digital Subscriber Line (DSL), Wireless Local Loop (WLL),

casual connections and Primary Rate Interface (PRI) connections during 2014-15. Non recovery of the NTC receipts exhibit the ineffective financial management of NTC and weak internal controls devised for realization of receivables.

The matter was reported in July to September 2015. It was replied that efforts were being made to recover the outstanding amount.

The reply was misleading therefore not tenable as the pace of recovery was very slow which needs to be accelerated. The balance amount be recovered and get it verified from audit.

DAC in its meeting held on 12th and 13th January, 2016 settled the para to the extent of outstanding dues of working connections as ongoing process. Further, DAC directed the NTC management to recover the outstanding dues against DSL, WLL, casual connections, PRI connections etc. and get it verified from Audit within one month.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that the outstanding dues may be recovered within one month besides fixing of responsibility failing which disciplinary action should be initiated against the officer responsible for non recovery under intimation to Audit.

(Based on PDP No.167)

5.5.2 Non Recovery of Colocation Charges - Rs 44.160 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 47,160,206 on

account of colocation charges (Space and tower) from different telecom operators during financial year 2014-15.

The matter was reported to PAO and management in November 2015. It was replied that an amount of Rs 3 million has been recovered. An amount of Rs 22 million is under litigation and an amount of Rs 4 millions is under recovery process. Moreover against receivables of Rs 6 millions the services of NTC have been disconnected. Further, efforts are being made to recover the remaining amount of Rs 12.9 million.

The recovered amount of Rs 3.00 million has been accepted and verified by Audit. The amount of audit para is reduced to Rs 44.160 million. Efforts may be made to recover the balance amount.

DAC in its meeting held on 12th and 13th January, 2016 directed NTC management to recover the amount and get it verified from audit.

No progress was intimated till the finalization of this Report.

Therefore, Audit recommends that the outstanding dues may be recovered within one month besides fixing of responsibility failing which disciplinary action should be initiated against the officer responsible for non recovery under intimation to Audit.

(Based on PDP No.205)

5.5.3 Non Recovery of Rent of Microwave Circuits – Rs 10.592 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 10,592,084 on

account of rent of microwave circuits from different telecommunication operators during financial year 2014-15.

The matter was reported to PAO and management in November 2015. It was replied that services of different departments having outstanding amount of Rs 7.00 million have already been disconnected after issuance of recoveries notices. Efforts are being made to recover the outstanding dues.

The reply was evasive, therefore, not acceptable as pointed out amount was not recovered by NTC.

DAC in its meeting held on 12th and 13th January, 2016 directed NTC management to recover the outstanding amount and get it verified from audit.

No further progress was intimated till the finalization of this Report.

Therefore, Audit recommends that the outstanding dues may be recovered within one month besides fixing of responsibility failing which disciplinary action should be initiated against the officer responsible for non recovery under intimation to Audit.

(Based on PDP No.206)

5.5.4 Non Recovery of Multi Services Data Network Intranet Charges - Rs 10.459 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 13,027,238 on account of Multi Services Data Network (MSDN) Intranet charges from different organizations during financial year 2014-15.

The matter was reported to PAO and management in November 2015. It was replied that out of Rs 13.027 million, an amount of Rs 2.568 million have been recovered. An amount of Rs 6.6 million is appearing against M/s PIFRA (AGPR) on account of GST charged in billing, which has not been accepted by PIFRA on the grounds that it is not applicable to PIFRA. The case for refund of wrongly charged amount is in process with FBR. Efforts are being made for recovery of balance amount of Rs 3.859 million.

The recovered amount of Rs 2.568 million has been accepted and verified by Audit. The amount of audit para is reduced to Rs 10.459 million. The case of refund with FBR be pursued vigorously.

DAC in its meeting held on 12th and 13th January, 2016 directed NTC to recover the outstanding amount and get it verified from audit.

No further progress was intimated till the finalization of this Report.

Therefore, Audit recommends that the outstanding dues may be recovered within one month besides fixing of responsibility failing which disciplinary action should be initiated against the officer responsible for non recovery under intimation to Audit.

(Based on PDP No.207)

5.5.5 Non Recovery of Web Hosting Charges - Rs 3.481 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 3,481,969 on account of web hosting charges from different organizations during financial year 2014-15.

The matter was reported to PAO and management in November 2015. It was replied that the services of different departments having outstanding amount of Rs 2.4 million, had been disconnected after serving recovery notice. In addition to this an amount of Rs 0.108 million has been recovered. Efforts are being made for recovery of the balance amount.

The reply was evasive therefore not tenable as the recovered amount was not verified from Audit and balance amount is still to be recovered by NTC.

DAC in its meeting held on 12th and 13th January, 2016 directed NTC to recover the outstanding amount and get it verified from audit.

No further progress was intimated till the finalization of this Report.

Therefore, Audit recommends that the outstanding dues may be recovered within one month besides fixing of responsibility failing which disciplinary action should be initiated against the officer responsible for non recovery under intimation to Audit.

(Based on PDP No.204)

5.5.6 Non Recovery on Account of Rent of Building - Rs 3.115 Million

According to clause 1 (a) 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 above, as per clause 1 (iv) a surcharge equal to 1.75% per month will be imposed on outstanding amount on daily basis.

NTC management rented out office premises at 1st and 2nd floor of NTC building Lahore to M/s Multinet. An amount of Rs 10,315,760 million of monthly advance rent and penalty was due from M/s Multinet during 2014-15.

The matter was reported to PAO and management in September 2015. It was replied that bills for the whole period as per contract have been forwarded to M/s Multinet Pakistan accordingly. Meetings have been conducted by Director NTC Lahore to recover rental income.

During verification held on 08.01.2016, the recovered amount of Rs 7,302,039 has been verified by audit. The remaining amount is still outstanding.

DAC in its meeting held on 12th and 13th January, 2016 directed NTC management to recover the outstanding amount and get it verified from audit.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that the outstanding dues may be recovered within one month besides fixing of responsibility failing which disciplinary action should be initiated against the officer responsible for non recovery under intimation to Audit.

(Based on PDP No.55)

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 Baltistan including Azad Jammu and Kashmir. It is managed by a Project Management 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 finalization of the Report despite continuous pursuance by Audit. Hence, no comments on accounts could be made.

AUDIT PARAS

6.3 Non Production of Record

6.3.1 Non Production of Auditable Documents - Rs 217.619 Million

According to para 14 (2) of the powers and functions of the Auditor General of Pakistan the officer in-charge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition. Para 14 (3) *ibid* further stipulates that “any person or authority hindering the auditoria functions of the Auditor General regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Discipline Rules, applicable to such person”.

SCO management refused to provide certain auditable record to audit despite written and verbal requests in violation of the above. Hence, expenditure amounting to Rs 217,619,430 remained unaudited.

The matter was reported to PAO and management in October 2015. It was replied that financial sanctions on account of petty works were issued to the under command units. All documents were held with the units and audit of the units have already been carried out and no observation was raised by audit.

The reply was misleading therefore, not acceptable. The budget of under command units did not show any allotment against which these sanctions were issued, therefore, at the time of audit of the units the expenditure remained unaudited. Further, the same expenditure and payment vouchers were also not shown in any cash book, general ledger and contractor ledger of the under command units.

DAC in its meeting held on 12th January, 2016 took a serious notice for non provision of record and directed to the management to provide all relevant record for Audit within a month.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be investigated with a view to fix responsibility for non production of record and non compliance of DAC directives on those who were at fault, failing which disciplinary action should be initiated against the officials at fault for non provision of record within the time agreed upon in DAC, under intimation to Audit.

(Based on PDP No.171)

6.4 Irregularity and Non Compliance

6.4.1 Unlawful Award of Contracts and Expenditure - Rs 31.484 Million

According to Rule 5 (5) (b) of Corporate Governance Rules 2013, the principle of objectivity, integrity and honesty requires that the directors and executives of a Public Sector Company do not allow a conflict of interest to undermine their objectivity in any of their activities.

SCO management awarded a number of major contracts amounting to Rs 31,484,120 to M/s Celmore Private Limited during 2014-2015. The data available on M/s Celmore website revealed that the company is a subsidiary of SCO. Hence, the award of contracts by SCO to its subsidiary gave rise to a situation of conflict of interest.

The matter was reported to PAO and management in October 2015. It was replied that although M/s Celmore is a subsidiary of SCO, contracts were awarded to the firm in open bidding after completion of all formalities. The company was never given any preferential treatment.

The reply was misleading therefore not acceptable as the award of work to a subsidiary was against the Corporate Governance Rules, 2013.

DAC in its meeting held on 12th January, 2016 directed the management

to provide record relating to establishment and operations of M/s Celmore which would clarify the exact legal status of the entity and whether being a subsidiary of SCO it was eligible to participate in the tendering process.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that the matter should be investigated at PAO level for fact finding. All relevant record regarding establishment of the subsidiary should be provided to Audit for verification, failing which strict disciplinary actions should be initiated against the officials at fault under intimation to Audit.

(Based on PDP No.179)

6.4.2 Unlawful Expenditure on Account of Pay and Allowances - Rs 15.418 Million

According to Rule 9 of GFR Vol-I, no authority may incur 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.

SCO management paid an amount of Rs 15,417,728 to the staff of CMA (FWO) from its budget during 2014-15. The expenditure was considered irregular because the employees were not on the sanctioned strength of SCO.

The matter was reported to PAO and management in October 2015. It was replied that the staff was deputed to look after the maintenance of accounts of SCO and related work has been authorized by Finance Division (Military) vide letter No.414/SCO/85 dated 22nd August, 1985.

The reply was misleading therefore not acceptable because Finance Division (Military) has fixed an authorization whereas SCO deviated from the authorization of the Military (Finance). Further, the officials were not on the strength of SCO, hence, the payment stands unlawful.

DAC in its meeting held on 12th January, 2016 directed SCO for revising earlier authorization granted by the Project Management Board vide letter dated 13.08.1985 and get it approved from the competent forum.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends for immediate compliance of the DAC directives. Responsibility should be fixed for deviation of fixed authorization and payment of pay and allowances to the persons who were not on the sanctioned strength of SCO, failing which disciplinary action should be initiated under intimation to Audit.

(Based on PDP No.178)

6.4.3 Unlawful Expenditure without Open Tendering - Rs 6.960 Million

According to Rule 12 (1) of PPRs 2004 read with Para 56 of FBA&A procedure of SCO 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.

SCO management incurred an expenditure of Rs 6,960,363 on printing of telephone bills and delivery of telephone bills during 2014-15. The expenditure was incurred without inviting open tenders.

The matter was reported to PAO and management in October 2015. It was replied in December 2015 that the work was awarded after fulfilling the formalities and calling of open tenders.

The reply was misleading therefore, not acceptable. The award of work regarding printing and delivery of telephone bills was awarded without open tendering.

DAC in its meeting held on 12th January, 2016 directed the management to provide all relevant record regarding tendering and award of work to M/s Celmore within a month.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be investigated for fact finding, fixation of responsibility and strict disciplinary action should be taken against those who violated PPRA rules under intimation to Audit.

(Based on PDP No.170)

6.4.4 Irregular Expenditure Without Provision In PC-I - Rs 33.753 Million

According to Rule 11 of GFR Vol-I, each head of organization is responsible for enforcing financial order and economy at every step. Further, Rule 12 ibid states that a controlling officer must see not only that total expenditure is kept within the authorized appropriation but also that the funds allotted are spent in the public interest.

SCO signed a contract agreement for Network Maintenance and Operation Centre (NMOC) on 20th May, 2014. An expenditure of Rs 33,753,000 on account of Interconnect Billing and Customer Support System (IB&CSS) was booked against already approved PC-I vide project No.VI/2003-2004, whereas there was no provision in the PC-I for this work. Therefore, the expenditure stands irregular.

The matter was reported to PAO and management in October 2015. It was replied that a Powerful Network Management System was part of approved PC-I. The Network Management System was included in the PC-I.

The reply was misleading therefore not acceptable because the detail of provisions attached with the approved PC-I did not show any provision of the subject work.

DAC in its meeting held on 12th January, 2016 pended the para till verification of record that is provisions of the objected amount in the PC-I within a month.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be investigated for fixation of responsibility and disciplinary actions should be initiated against the officials at fault for non compliance of the DAC directives.

(Based on PDP No.169)

6.5 Receivables

6.5.1 Non Imposition and Recovery of Late Payment Charges On Account of DPLC, VIM And Co Location Charges - Rs 10.114 Million

According to Para 13.1 of schedule 6 contained in the SCO Reference Interconnect Offer Agreement (RIO), 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.

SCO management failed to recover an amount of Rs 10,113,892 on account of late payment charges for Domestic Private Leased Circuits (DPLC), Virtual Interconnection Media (VIM) and Co Location Charges. Non imposition of late payment charges indicates undue favor to the operators which resulted in loss to the Government exchequer.

| S.No | Description | Amount (Rs) |
|--------------|---------------------|--------------------|
| 1. | DPLC Charges | 6,633,555 |
| 2. | VIM Charges | 1,949,043 |
| 3. | Co Location Charges | 1,531,294 |
| Total | | 10,113,892 |

The matter was reported to PAO and management in October 2015. It was replied that in compliance to previous DAC directives the case had been taken up with PTA but reply is still awaited.

The reply was misleading therefore not acceptable. The late payment charges were not imposed as required in the provisions of the approved RIO. As regards non receipt of reply from PTA, the record did not show any vigorous pursuance with PTA.

DAC in its meeting held on 12th January, 2016 upheld its earlier decision dated 17th December, 2014, that the management should take up the case with the concerned operators for recovery. It was further directed that if SCO faces difficulties, then the clauses of the RIO be got amended from the competent forum in future.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be investigated at Ministry level, responsibility fixed and disciplinary proceedings should be initiated against the officials who were at fault besides recovery of the late payment charges under intimation to Audit.

(Based on PDP No.173)

6.5.2 Non Recovery of Outstanding Dues from Subscribers - Rs 3.674 Million

According to Rule 28 of GFR Vol-I, no amount due to Government should be left outstanding without sufficient reason and where any dues appear to be irrecoverable the order of competent authority for their adjustment must be sought.

Two formations of SCO failed to recover an amount of Rs 3,674,342 from various designated customers on account of Digital Cross Connect (DXX),

Casual Telephone Connections, Working Connections, Defaulters and Closed Connections during 2014-15.

The matter was pointed out during July and October 2015. It was replied by AOTR Gilgit that recovery is under process whereas AOTR Mirpur has informed that an amount of Rs 316,668 has been recovered.

The reply was evasive therefore not acceptable because the outstanding amount was neither recovered nor got verified from Audit.

DAC in its meeting held on 12th January, 2016 directed SCO to get the recovered amount verified besides recovery of the balance amount.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that amount should be recovered and got verified from Audit within a month.

(Based on PDP No.181)

6.5.3 Less Realization on Account of DPLC Charges - Rs 1.494 Million

According to Para 2.6 & 2.7 of Schedule 4 of Reference Interconnect Offer (RIO) of SCO, 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. Rule 28 of GFR Vol-I, further stipulates 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.

SCO issued a demand note amounting to Rs 26,742,222 on 26th May, 2015 to M/s CM Pak (Zong) on account of DPLC charges with the direction to pay the dues within 15 days. The record revealed that out of total amount an

amount of Rs 1,494,490 was less realized. The reasons for less realization were not shown to Audit.

| S.No | Description | Total Amount (Rs) | Amount Realized (Rs) | Less Realized (Rs) |
|-------------|--------------------|--------------------------|-----------------------------|---------------------------|
| 01 | DPLC Charges | 26,742,222 | 25,247,732 | 1,494,490* |

Less realized pertains to Skardu-Daryore and Shigar-Daryore

The matter was reported to PAO and management in October 2015. It was replied that M/s CM Pak pointed the discrepancy of non acquiring the media due to which the payment was not released. It is a reconciling item and issue will be resolved shortly.

The reply was evasive therefore not tenable because as per record the operator had acquired the DPLC media from SCO and was liable to pay rent in advance, hence, there was no reconciliation involved.

DAC in its meeting held on 12th January, 2016 directed SCO to recover the amount at the earliest and get it verified from Audit.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that less realized amount should be recovered and got verified from Audit besides fixation of responsibility for non recovery against those who were at fault under intimation to Audit.

(Based on PDP No.174)

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, allied equipment and 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 finalization of the Report despite continuous pursuance by Audit. Hence, no comments on accounts could be made.

AUDIT PARAS

7.3 Fraud and Misappropriation

7.3.1 Misappropriation of Store - Rs 1.065 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.

Examination of Stock Register revealed that 200 Kg Solder Bar was issued whereas the stock register showed issuance of the solder bar as 800 Kg. After expiry of one year on 23.02.2015 an entry was made in the stock register as "missing booking" and counted the 600 Kg in the balance. The entry was made without obtaining physical counting of store by the store incharge. This showed that 600 Kg solder bar valuing US \$ 10,152 equivalent to Pak Rs 1,064,945 was misappropriated.

The matter was reported to PAO and management in November 2015. It was replied in January 2016 that on receipt of report of missing store dated 27-04-2015 an inquiry committee was constituted. The report could not be finalized due to absence of one committee member.

The reply was misleading therefore not acceptable. The inquiry neither was conducted nor finalized despite lapse of a considerable period. The delay in inquiry provided a safe exit to the officials who involved in the misappropriation of store.

DAC in its meeting held on 13th January, 2016 directed the management to complete the inquiry process within 30 days and submit report to DAC.

No further progress was reported till finalization of this report.

Therefore, Audit recommends for immediate compliance of the DAC directives and its verification by Audit, failing which strict disciplinary action should be initiated against the officials at fault under intimation to Audit.

(Based on PDP No133)

7.4 Non Production of Record

7.4.1 Non Production of Record - Rs 3.233 Million

According to para 14 (2) of the powers and functions of the Auditor General of Pakistan, the officer incharge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in complete form as possible and with all reasonable expedition. Para 14 (3) *ibid* further stipulates that “any person or authority hindering the auditoria functions of the Auditor General regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Discipline Rules, applicable to such person”.

TIP management did not provide log books, history sheets and POL record as requested by audit. Therefore, expenditure amounting to Rs 3,235,685 remained unaudited.

The matter was reported to PAO and management in November 2015. It was replied in January 2016 that record is available and can be verified.

The reply was misleading, therefore, not acceptable as the said record was not provided to audit despite repeated requests.

DAC in its meeting held on 13th January, 2016 directed TIP management to provide record to Audit within a month.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be investigated for non provision of record besides implanting the DAC directives, failing which responsibility should be fixed and disciplinary action initiated against those at fault under intimation to Audit.

(Based on PDP No154)

7.5 Irregularity and Non Compliance

7.5.1 Non Closure of Books of Accounts for the Year 2013-14 And 2014-15

According to Rule 23 (I) of Corporate Governance Rules 2013, every Public Sector Company shall ensure that its annual accounts are audited by external auditors, as envisaged under section 252 of the Ordinance. When carrying out audit of a Public Sector Company, the external auditors shall take into account the specific requirements of any other relevant regulations, ordinances or ministerial directives which affect the audit mandate and any special auditing requirements.

TIP management failed to finalize the annual accounts for the year 2013- 14 and 2014-15 and did not get them audited from the external auditors. Moreover, the books of accounts for these years were not closed as on 30th June. Financial transactions were not posted in the ERP system maintained by TIP and report was not generated for the management and TIP Board.

The matter was reported to PAO and management in November 2015. It was replied in January 2016 that the books of accounts for the last three years are still open due to some ERP system problem and the removal of the employees who had obtained the training of this system. As regard to external audit the auditors were not appointed by the Federal Government.

DAC in its meeting held on 13th January, 2016 directed TIP management to seek clarification from the Finance Division regarding non closing of accounts.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends for immediate compliance of the DAC directives.

(Based on PDP No152)

7.5.2 Non Completion of Pension Payment Record - Rs 159.055 Million

According to compendium of Pension Rules 2008 under anticipatory pension and gratuity payment order pensioners portion Para 4 note 1 (d), the disbursing officer must at least once a year require proof, independent of that furnished by the life certificate of the continued existence of the pensioner. Further, the Government of Pakistan has announced various increases for the pensioners in annual budgets. These increases were also allowed by the TIP management Board to its pensioners. The TIP management Board in its 181st meeting has allowed 10% increase in pension of TIP executive pensioners as notified by Finance Division letter No.F.4(1)-Reg 6/2013-1375 dated 16.07.2013 w.e.f 01.07.2013.

TIP management paid monthly pension of Rs 13.255 million (Annual 159.055 million) to 2929 number of pensioners of various categories as detailed below:

| S No | Description | No. of Pensioners | Monthly Pension (Rs) |
|----------------------|---|--------------------------|-----------------------------|
| 01 | Employees & Workers BPS 01 to 16 | 1892 | 5,832,972 |
| 02 | Employees & Workers widows BPS 01 to 16 | 832 | 1,668,287 |
| 03 | Executive Pensioners BPS 17 & above | 152 | 4,579,766 |
| 04 | Executive widows | 53 | 1,173,594 |
| TOTAL | | 2929 | 13,254,619 |
| Annual Amount | | | 159,055,428 |

Audit observed that the increases allowed by the TIP Board to its

pensioners from time to time were not fully implemented and updated by the management after 2012-13. Firstly, life certificates of the pensioners after six months were not obtained in any case by the TIP management as well as by the National Bank of Pakistan, Haripur. Secondly, in case of family pensioners non marriage certificates were also not obtained and placed in record. It was further observed that NBP, Haripur paid accumulated amount of pension to the pensioners after one or two years without obtaining NOC from TIP or any affidavit from the pensioners.

Incharge pension cell informed that obtaining of requisite certificates and NOC regarding payment of accumulated pension was the responsibility of National Bank. In this regard, a meeting was held with the representative of National Bank, Haripur on 12.11.2015 who informed that they had no instructions from the TIP management regarding obtaining of requisite certificates and accumulated pension payment. Audit was of the view that TIP did not have proper internal controls to verify whether actual pensioners were drawing pension or otherwise.

The matter was reported to PAO and management in November 2015. It was replied in January 2016 that TIP is disbursing monthly pension through National Bank of Pakistan. Therefore, the identification of the pensioner is the responsibility of the disbursing office. According to agreement with NBP in case of non receipt of claims from the registered pensioners for continuous one year, the paying branch will refer the matter to the TIP.

The reply was not tenable because the representative of NBP, Haripur informed that there was no such agreement made with TIP regarding obtaining NOC, life certificates and non marriage certificate in case of family pension.

DAC in its meeting held on 13th January, 2016 directed the management to maintain the pension payment ledgers, update its record and get it verified from Audit.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that TIP should make a comprehensive agreement with NBP regarding internal controls that should be applied at the time of disbursement of pension as required under Pension Rules, failing which strict disciplinary actions should be initiated against officials at fault under intimation to Audit.

(Based on PDP No149)

7.5.3 Extravagant Expenditure on Reimbursement and Purchase of Medicines - Rs 17.439 Million

According to management directive No. 17/91 dated 20th June 1991, medical facility was allowed to the TIP retired executives and regular employees vide medical policy of 1992. Further, Finance Division (Regulation Wing) granted medical allowance @ 15 % of the basic pay to the employees in B-16 and above and Rs 1,000 p.m to the employees in B-01 to 15 vide O.M No.F.1 (1) Imp/2010-622 dated 05.07.2010.

TIP management incurred an expenditure of Rs 17,438,571 on account of reimbursement of medical charges and purchase of medicines during the year 2014-15 despite its poor financial health. The management should have reviewed its earlier medical policy and placed it before the Board of Directors for approval because TIP is no longer a profit making unit and is dependent on MoIT for grant of its pay & allowances every year.

The matter was reported to PAO and management in November 2015. It was replied in January 2016 that TIP is registered under Factory Act 1939 as a Private Limited Company under Companies Ordinance 1984 to perform commercial operations. In TIP all Government rules and policies are not applicable to its employees. The medical facilities are being provided to the staff in accordance with the terms and conditions of their appointment and CBA agreements.

The reply was not acceptable because TIP is no more a profit making unit and is wholly owned and controlled by Federal Government, hence, the instructions issued by the Federal Government are applicable on TIP.

DAC in its meeting held on 13th January, 2016 directed the management to frame a well thought out medical policy and submit to BOD within 60 days.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends immediate compliance of the DAC directives.

(Based on PDP No142)

7.5.4 Unjustified Payment of Pay and Allowances - Rs 9.458 Million

According to Finance Division's O.M. No.F.15(13)-R 14/82 dated 05.09.1982, 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 rules or specific orders of the Government.

TIP continued to pay its staff pay and allowances on the basis of CBA agreements when the factory was operative. TIP did not make any effort to get its pay package revised from the Board of Directors. This resulted into unjustified payment of pay & allowances of Rs 9,457,622 during the year 2014-15. Detail is as under:

| S.No | Name of allowance | Amount (Rs) |
|-------------|---------------------------------------|------------------------|
| 01 | Special Incentive Allowance workers | 2,617,125 |
| 02 | Special Incentive Allowance employees | 4,666,938 |
| 03 | Milk Butter Allowance workers | 135,146 |

| | | |
|--------------|---------------------------------|------------------|
| 04 | Milk Butter Allowance employees | 50,188 |
| 05 | Factory Pay workers | 746,250 |
| 06 | Factory Pay employees | 1,241,975 |
| TOTAL | | 9,457,622 |

The matter was reported to PAO and management in November 2015. It was replied in January 2016 that TIP is registered under Companies Ordinance 1984 to perform commercial operations. In TIP all Government rules and policies are not applicable to its employees.

The reply was not acceptable because TIP is no more a profit generating unit and it is wholly owned and controlled by Federal Government, hence, the instructions issued by the Federal Government regarding pay and allowances should also be applicable on TIP.

DAC in its meeting held on 13th January, 2016 directed the management to frame a well thought out pay package policy and submit to BoD within 60 days.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends immediate compliance of the DAC directives.

(Based on PDP No144)

7.6 Receivables

7.6.1 Non Raising of Claims and Recovery from Sharing Units - Rs 55.311 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 reasons”.

TIP management being chairman of Colony Board was responsible for issuance of claims to the sharing units. The record showed that TIP management did not raise the claims of Colony Board share to M/s National Radio Telecommunication Corporation (NRTC) and Telecommunication Staff College (TSC) on the pretext that the claims could not be served due to non availability of staff. According to the record provided by the TIP management, an amount of Rs 55,311,069 was recoverable from the sharing units for the year 2014-15. Detail is as under:

| S.No | Description | Amount (Rs) |
|--------------|---|------------------------|
| 01 | Telecommunication Staff College (TSC) share @ 18.56% | 31,881,163 |
| 02 | National Radio Telecommunication Corporation (NRTC) @ 13.64% | 23,429,906 |
| TOTAL | | 55,311,069 |

The matter was reported to PAO and management in November 2015. It was replied in January 2016 that the net recoverable were Rs 37.897 million and the claims have been issued.

The reply was misleading, therefore, not acceptable as claims were not issued to the sharing units due to which the amount was not recovered so far.

DAC in its meeting held on 13th January, 2016 directed TIP management to make hectic efforts for early recovery of the due amount and get it verified from Audit.

No further progress was reported till finalization of this report.

Therefore, Audit recommends that matter should be investigated, fix responsibility and initiate disciplinary proceeding against the officials who were responsible for issuance of the claims under intimation to Audit.

(Based on PDP No137)

7.6.2 Recurring Loss on Account of Electricity and Sui Gas Charges - Rs 41.435 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.

TIP sustained a heavy loss of Rs 41,434,727 on account of payments made to WAPDA and SNGPL during the year 2014-15. The loss occurred due to bulk supply of electricity and natural gas to the TIP and onward distribution to the residents of the colony and subsidiaries of Colony Board. The TIP Colony Board management failed to resolve this chronic issue despite continuous pointing out by Audit in previous reports and directions of the DAC.

The matter was reported to PAO and management in November 2015. It was replied in January, 2016 that hectic efforts are being made to get rid of these losses. The matter was taken up time and again with the WAPDA to take over the Colony but nothing was done. However, the SNGPL had given a demand note of Rs 10 million to take over the network.

DAC in its meeting held on 13th January, 2016 directed TIP management to comply with the previous DAC directives dated 18th December, 2014 in which DAC took serious notice of line losses. The management was directed to make concerted efforts to avoid such recurring losses. It was further directed to accelerate the already initiated process of installation of individual meters.

No further progress was reported till finalization of this report.

Therefore, Audit recommends that the matter should be taken up with WAPDA and SNGPL and loss should be shared by all stakeholders of the colony.

(Based on PDP No139)

7.6.3 Loss Due to Non Recovery of Rent - Rs 15.854 Million

According to Rule 26 (3) of Accommodation Allocation Rules 2002, it shall be the responsibility of the Ministry or Division as the case may be, or department concerned to recover the rent according to the demand statement from occupants of the accommodation. Further, TIP management circulated the standard rent for official accommodation for the year 2015, vide No.HR&A-SR-15/12 dated 03.12.2014.

TIP management failed to recover an amount of Rs 15,854,166 on account of rent from those who illegally occupied quarters allotted to TIP employees in the residential colony, even after expiry of their contracts or having been removed from service.

The matter was reported to PAO and management in November 2015. It was replied in January 2016 that it is not possible for the TIP and Colony Board to recover the rent and vacation of quarters due to political pressure, CBA hurdles and being subjudice matter.

The reply was not acceptable because TIP management is fully responsible for the allotment and vacation of the quarters, recovery of the dues.

DAC in its meeting held on 13th January, 2016 directed the TIP management to make hectic efforts for recovery of rent and get it verified from Audit.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be taken up with the City District Administration through administrative Ministry to vacate these quarters failing which disciplinary action should be initiated and responsibility fixed against those who were at fault under intimation to Audit.

(Based on PDP No134)

7.6.4 Non Recovery of Utilities from the Occupants of Residential Quarters - Rs 8.364 Million

According to Rule 26 of GFR Vol-1, it is the duty of controlling officers to see that all the sums due to Government are regularly and promptly assessed, realized and duly credited into the Public Account. Further, Rule 28 of GFR Vol-1 states that “No amount due to Government should be left outstanding without sufficient reasons.

TIP management allotted a number of residential quarters to the contract employees. The contract employees were removed from service by the TIP management on the direction of Ministry of Information Technology (MoIT) from the year 2013 but neither quarters were got vacated nor recovery of Rs 8,363,795 was made on account of utilities.

The matter was reported to PAO and management in November 2015. It was replied in January 2016 that it is not possible for the TIP and Colony Board to recover the cost of utilities and vacation of the quarters due to political pressure, CBA hurdles and the matter being subjudice.

The reply was not tenable because the TIP and Colony Board was responsible for allotment of these quarters to the contractual staff. The cost of utilities should be recovered.

DAC in its meeting held on 13th January, 2016 directed the management to make hectic efforts for recovery and get it verified from Audit.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that the matter should be taken up with the City District Administration through administrative Ministry for vacation of these quarters and recovery of utilities under intimation to Audit.

(Based on PDP No138)

7.6.5 Loss Due to Non Recovery of Rent and Utilities - Rs 4.255 Million

According to Rule 31 of GFR Vol-I, the detailed rules and procedure regarding the demand and recovery of rents of Government buildings and lands are contained in the departmental regulations of the departments in charge of those buildings. TIP has framed its regulations for rent of its buildings in the light of Works Division's notifications regarding hiring of accommodations.

TIP management let out residential facility Military Intelligence (MI) and Police Department. TIP management neither recovered the cost of utilities nor guest room charges. An amount of Rs 4,254,872 was recoverable as per record for the year 2014-15.

The matter was reported to PAO and management in November 2015. It was replied in January 2016 that the matter has been taken up with the concerned quarters through district administration.

The reply was evasive, therefore, not acceptable. The matter should be pursued vigorously with the concerned authorities for recovery of dues.

DAC in its meeting held on 13th January, 2016 directed the management to start the process of recovery and vacation of TIP's rest house and residential facility under intimation to Audit.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be investigated at Ministry level besides taking up the matter with the concerned departments for vacation of the buildings and recovery of dues under intimation to Audit.

(Based on PDP No136)

CHAPTER-8

UNIVERSAL SERVICE FUND COMPANY

8. UNIVERSAL SERVICE FUND COMPANY

8.1 Introduction

Federal Government established a fund with the name Universal Service Fund under section 33A of Pakistan Telecommunication (Reorganization) amended Act, 2006. The main functions of the Fund are as under:

- The USF shall be under the control of the Federal Government and therein shall be credited any sums of money and the balance to the credit of the USF shall not lapse at the end of the financial year.
- The USF shall consist of grants made by the Federal Government and the Provincial Government.
- Prescribed contribution by licensees.
- Sale proceeds from the auction of the right to use radio spectrum.
- Loans obtained from the Federal Government.
- Grants and endowments received from other agencies.

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, under served, rural and remote areas and other expenditure to be made and incurred by the Federal Government in managing USF. The Federal Government shall be responsible for the coordination and ensuring 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 Universal Service Fund Rules, 2006. In terms of Rule (10) *ibid*, MoIT established a non profit company limited by guarantee for implementation of USF projects.

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

8.2 COMMENTS ON BUDGET AND ACCOUNTS

Universal Service Fund (USF) 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 made.

AUDIT PARAS

8.3 Irregularity and Non Compliance

8.3.1 Unauthorized Operation of PLS Bank Account and Retention of Balance - Rs 18.627 Million

According to Para 5 of Standard Operating Procedure duly approved by the Controller General of Accounts vide letter No.272/AC-II/4-288/2006 dated 1.11.2013 Government shall transfer funds provided in budget grant of Federal and Provincial Government, as the case may be, to Public Account through AGPR / respective AGs'. The licensees shall deposit contribution as prescribed by the Government in Public Account No.G-12783 through challan in SBP / NBP, as the case may be under the jurisdiction of Federal Treasury Office' Islamabad.

Para 7 (a) *ibid* further stipulates that the Fund shall be utilized through a non lapsable Personal 'Ledger Account (PLA) which shall be operated by USF Company. The Federal Government shall be responsible for coordination and ensuring timely utilization in accordance with the criteria as prescribed under the Rules.

USF operated a PLS account No 5453-6 (old) 3000926866 (new) in violation of the above rule. A balance of Rs 18,626,545 also appeared in the account statement as on 12th July, 2015 which was against the approved standard operating procedure.

The matter was reported to PAO and management in August and September 2015. It was replied in November 2015 that the MoIT had already transferred balance of the fund to the Public Account before the year ending 30th June, 2015. The amount pointed out by Audit relates to AJK and GB for which the SoP approved by the CGA is not applicable.

The reply was evasive, therefore, not acceptable because USF had opened a PLS account contrary to rules and kept its money out of the Fund account of the Federal Government maintained with the Federal Treasury office Islamabad.

DAC in its meeting held on 12th January, 2016 directed USF management to close the PLS Bank account and get it verified from Audit.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be investigated, responsibility fixed and disciplinary action be taken against those who allowed opening of an unauthorized account and kept Government money in it under intimation to Audit.

(Based on PDP No.54)

8.3.2 Non Production of Demand Notes and Non Maintenance of Receivable Record

Government of Pakistan, Ministry of information Technology (IT & Telecom Division) letter No. 18-2/2009-DT dated 5th July, 2013 states that all the operators must pay USF, APC for USF and R&D Fund related contributions directly to the ministry. The Authority is directed to refrain from receiving fund related contribution from licensees anymore, and should direct them to make payment directly to the MoIT.

USF failed to provide all the demand notes for the contributions for the year 2014-15 to audit. Therefore, the amounts received on account of USF and R&D Contributions could not be ascertained. Fund management has no mechanism to ascertain whether the contributions to be made by the operators have been correctly assessed and received within due date. This resulted in non accuracy of the receivables.

The matter was reported to PAO and management in August and September 2015. It was replied that the issuance of demand notes to the operators is the responsibility of the Authority. The MoIT, time and again, requested PTA through official letters to share the same with Fund management for proper accounting.

The reply was misleading, therefore, not acceptable. The USF Fund (MoIT) was mandated to collect the contributions from the operators, therefore, it should also maintain record of receivables so as to ascertain how much is due from which operator by a certain date.

DAC in its meeting held on 12th January, 2016 directed USF management to arrange a meeting with the Chairman PTA and ensure the provision of demand notes and update the record related to receivables.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be investigated, responsibility fixed and disciplinary actions be taken against those who failed to safeguard the interest of the Government under intimation to Audit.

(Based on PDP No.53)

8.4 Receivables

8.4.1 Non Recovery on Account of APC for USF - Rs 7,820 Million

According to Section 10 Sub Section (2) of Access Promotion Regulation, 2005, "An Long Distance International (LDI) licensee shall make payment into the designated bank account within a time period not exceeding ninety (90) days from the close of the month to which such payment relates. Further, para 4.4.2 of General conditions of license 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.

USF management failed to recover an amount of Rs 7,820 million on account of APC for USF during the year 2014-15. This showed weak receivable management on the part of MoIT (USF Fund) and non reconciliation of dues with PTA. Moreover, the demand notices issued by PTA did not include late payment charges, however, USF Fund being custodian of the Fund did not raise any objection. Late payment charges could not be calculated in the absence of record.

The matter was reported to PAO and management in August and September 2015. It was replied that the majority of the amount pointed out by audit has been realized into Fund account. The notice for recovery has also been issued by PTA to the operators.

The reply was evasive therefore not acceptable because recovery particulars were not provided to audit for verification.

DAC in its meeting held on 12th January, 2016 directed USF management to get the verification of recovered amount and efforts be made for recovery of the balance amount.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that the matter may be investigated, responsibility fixed and disciplinary action may be taken against those at fault under intimation to Audit.

(Based on PDP No.45)

8.4.2 Non Deposit of USF Contributions in the Public Account - Rs 5,632.242 Million

According to Para 8 of GFR Vol-I, subject to such general or specific

instructions as may be issued by Government in this behalf, it is the duty of the Revenue department concerned to see that the dues of Government are correctly and promptly assessed, collected and paid into the treasury.

USF receivable sheets did not depict the receipt of Rs 5,632.242 million collected by PTA on account of USF contributions and APC for USF even though PTA ledgers showed that the amount had been deposited in MoIT account. This resulted into non deposit of the contribution in the Public Account as detailed below:-

| S.No | Description | Amount (Rs) |
|--------------|--------------------|----------------------|
| 01 | USF contributions | 1,047,815,534 |
| 02 | APC for USF | 4,584,426,853 |
| TOTAL | | 5,632,242,387 |

The matter was reported to PAO and management in August and September 2015. It was replied that USF contributions had duly been incorporated into the Fund Account. The entire amount had been realized and credited into the Public Account.

The reply was evasive, therefore, not acceptable because no documentary evidence was provided regarding updation of the Fund Account and credit of the amount into Public Account.

DAC in its meeting held on 12th January, 2016 directed USF management to get the figures reconciled with PTA and get it verified from Audit.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that requisite record with complete detail of recoveries should be provided to Audit for verification, failing which strict disciplinary actions should be taken against the officials at fault under intimation to Audit.

(Based on PDP No.51)

8.4.3 Non Recovery of USF Dues from PTA - Rs 765.403 Million

According to Ministry of Information Technology (IT & Telecom Division) letter No.18-2/2009-DT dated 5th July, 2013, all operators are advised to strictly comply with the essence of SRO 846(1)/2007 dated 20th August, 2007. It is reiterated here that all the operators must pay USF, APC for USF, sale proceeds from the auction of the right to use spectrum and R&D fund related contributions directly to the Ministry of IT exclusively. The licensee's obligation to make such payments to PTA will not discharge their obligation for payment of Fund related contributions to USF / R&D Fund (MoIT). Failing to comply with the directives, the status of such licensees would be considered as defaulter. The Authority is directed to refrain from receiving fund related contribution from licensees anymore, and should direct them to make payment directly to the MoIT.

USF management failed to collect an amount of Rs 765,403,806 on account of USF contributions from PTA Collection Account. This showed weak internal controls of the USF towards its receivable management. Detail is as under:-

| 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 matter was reported to PAO and management in August and September 2015. It was replied that the Fund management had already noticed the same and required the authority to transfer the funds to the Public Account of the MoIT.

The reply was misleading, therefore, not acceptable. The amount pointed out in the Audit para was not transferred to Public Account by the PTA and Fund management did not take any action.

DAC in its meeting held on 12th January, 2016 directed USF management to recover the amount and get it verified from Audit.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be investigated, responsibility fixed and disciplinary action be taken against those responsible for delaying the transfer of USF contribution in the Public Account by PTA under intimation to Audit.

(Based on PDP No.46)

8.4.4 Short Realization on Account of USF Charges - Rs 367.694 Million

According to clause 6.1 of Long Distance International (LDI) License issued under section 21 of the Pakistan Telecommunication (Re-organization) Act, 1996, the Licensee shall contribute to the Universal Service Fund an amount calculated on the basis of 1.5% (Pakistan) and 2% for (AJK&NA) of the Licensee's gross revenue from Licensed Services for the most recently completed financial year of the Licensee minus inter operator payments and related PTA and FAB mandatory payments. Further, clause 4.2.2 further stipulates that the licensee shall make this contribution within 120 days of the end of financial year.

USF management booked an amount of Rs 367,694,276 as USF contributions by operators without verifying if the demand notes issued by PTA were as per rules or not. PTA issued demand notes to telecom operators for USF contributions after deducting sales tax and federal excise duty from their gross revenue which was in violation to the above rule. Detail is as under:-

| S.No | Name of the Companies | Less realization (Rs) |
|--------------|------------------------------|----------------------------------|
| 01 | M/s Mobilink | 240,618,089 |
| 02 | M/s Ufone | 127,076,187 |
| TOTAL | | 367,694,276 |

The matter was reported to PAO and management in August and September 2015. It was replied that the demand notes to the operators are issued by the PTA as per its mandate. The Fund management has no mechanism to check the accuracy of the billing. The demand notes issued by the PTA do not contain any such detailed calculations related to the sales tax adjustment. Thus, the Fund management remained unaware of such falsification in billing.

The management accepted the irregularity in its reply. This showed weak receivable management as well as non existence of internal controls in the Fund management.

DAC in its meeting held on 12th January, 2016 directed USF management to pursue the case with PTA for realization of outstanding amount and get it verified from Audit.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that the matter should be investigated and responsibility should be fixed on those who have not been vigilant in ensuring accurate recovery of contributions under intimation to Audit.

(Based on PDP No.49)

8.4.5 Non Recovery of Outstanding USF Dues from Telecom Operators - Rs 311.233 Million

According to clause 6.1 of Long Distance International (LDI) License issued under section 21 of the Pakistan Telecommunication (Re-organization) Act, 1996, the Licensee shall contribute to the Universal Service Fund an amount calculated on the basis of 1.5% of the Licensee's gross revenue from Licensed Services for the most recently completed financial year of the Licensee minus inter operator payments and related PTA and FAB mandatory payments. Further, clause 4.2.2 further stipulates that the licensee shall make this contribution within 120 days of the end of financial year.

USF management failed to recover an amount of Rs 311,232,775 on account of USF contributions from the operators as appeared in the receivable ledgers of PTA.

The matter was reported to PAO and management in August and September 2015. It was replied that the demand notes were not regularly shared with the MoIT. Therefore, the Fund management is not in a position to realize the unknown amount. Moreover, the responsibility related to the realization of fund remains with PTA as mandated by the rule. MoIT is in process of reconciliation with PTA to address such matters and to come up with a conclusive solution to fix the matter.

The management accepted the irregularity in its reply. This showed weak receivable management as well as non existence of internal controls in the Fund management.

DAC in its meeting held on 12th January, 2016 directed USF management to pursue the case with PTA for realization of outstanding amount and get it verified from Audit.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that the matter should be investigated, responsibility fixed and disciplinary action be taken against those who neglected timely recovery of USF contributions from PTA under intimation to Audit.

(Based on PDP No.48)

8.4.6 Non Recovery of Mobilization Advance - Rs 104.943 Million

According to agenda item No.04, para 02 of minutes of 36th Board of Director meeting of the USF Company dated 19th November, 2014, a penalty equivalent to the bank guarantee be imposed on M/s Wateen Telecom for non performance of the Broadband Central Telecom Region (CTR) Project.

It was observed that a broadband project was awarded to Wateen Telecom on 28th April, 2010 with a completion period of 18 months. The contractor deposited bank guarantee amounting to Rs 209,887,000 as per agreement. Further, a mobilization advance of Rs 104 million was granted to contractor vide voucher No.300 dated 08.02.2011. The contractor failed to complete the project even after lapse of considerable time. USF management encashed the bank guarantee of Rs 209,887,000 as per decision of Board but the mobilization advance of Rs 104,943,500 was not recovered.

The matter was reported to PAO and management in September 2015. It was replied that the BoD passed a resolution that "The USF Board of Directors resolved to approve that a penalty equivalent to the Bank Guarantee be imposed on Wateen Telecom for non performance of the Broadband CTR project". Without prejudice to the above, USF Company has not only recovered the mobilization advance amounting to Rs 104,943,500 i.e. 20% of the contract value but also penalized M/s Wateem on account of penalty to the tune of Rs 104,943,500.

The reply was misleading, therefore, not acceptable being non

compliance of the Board of Directors resolution as mobilization advance was not part of penalty.

DAC in its meeting held on 12th January, 2016 directed USF management for verification of record of recovery of penalty including the advance payment.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that matter should be investigated, responsibility fixed and disciplinary action be taken against the officials at fault for giving undue favour to the contractor under intimation to Audit.

(Based on PDP No.40)

8.4.7 Non Realization of Receivables - Rs 37.078 Million

According to Para 8 of GFR Vol-I, subject to such general or specific instructions as may be issued by Government in this behalf, it is the duty of the Revenue department concerned to see that the dues of Government are correctly and promptly assessed, collected and paid into the treasury.

USF management failed to recover an amount of Rs 37,077,782 on account of USF dues from M/s Telecard Ltd. Detail is as under:-

| S.No | Description | Principal Amount | LPAF till 15 May 2015 | Total (Rs) |
|-------------|--------------------|-------------------------|------------------------------|-------------------|
| 01 | USF Contributions | 18,423,735 | 18,654,047 | 37,077,782 |

The matter was reported to PAO and management in August and September 2015. It was replied that the said payment on account of USF contribution had already been received from M/s Telecard. This operator had deposited Rs 18,423,735 of USF contribution to the fund account of MoIT as on 21st September, 2015.

The reply was evasive, therefore, not acceptable because an amount of Rs 18,654,047 on account of late payment charges till 15th May, 2015 was not recovered. Further, copy of the Federal Treasury challan of the recovered amount was not provided.

DAC in its meeting held on 12th January, 2016 directed USF management to pursue the case with PTA for realization of outstanding amount and get it verified from Audit.

No further progress was reported till finalization of this Report.

Therefore, Audit recommends that the matter should be investigated, responsibility fixed and disciplinary action be taken against those who failed to recover late payment charges from M/s Telecard under intimation to Audit.

(Based on PDP No.47)

CHAPTER-9

**PAKISTAN TELECOMMUNICATION
COMPANY LIMITED**

9. PAKISTAN TELECOMMUNICATION COMPANY LIMITED

9.1 Non Production of Record

9.1.1 Non Production of Record

According to the Article 170 of Constitution of Islamic Republic of Pakistan “the audit of the accounts of the Federal and the Provincial Governments and the accounts of any authority or body established by, or under the control of, the Federal or a Provincial Government shall be conducted by the Auditor General who shall determine the extent and nature of such audit”. Moreover, on directions of the PAC sub committee on monitoring & implementation dated 14th May, 2015, audit of PTCL was included in the Audit Plan for the year 2015-16.

The matter was taken up with President PTCL vide letter dated 30-05-2012 and MoIT vide letter dated 04-06-2012, however, PTCL refused to get the audit done by Auditor General of Pakistan vide its letter dated 18-06-2012. Legal opinion was also sought from Law & Justice Division, which upheld the audit stance stating that “no Act or Ordinance can override a constitutional provision and if it is found in contravention, it is deemed to be null and void to that extent”. The Supreme Court has already held that Auditor General of Pakistan has the power to investigate into the affairs of every department so far as it affects finance. PTCL was again requested vide letter dated 28-09-2012 and 17-12-2012 to arrange auditable record, however, no positive response was received.

DG PT&T Audit once again took up the matter upon directions of the PAC dated 20th May, 2015 with MoIT & T and PTCL management on 27th May, 2015 for statutory audit but no response was received and instead it was replied by the MoIT & T that PTCL is a Public Limited Company registered under the Companies’ Ordinance 1984 in 1996 and in pursuance of section 34 of the Pakistan Telecommunication (Re-organization) Act, 1996 and Section 38 (3)

of the said Act, PTCL was exempted from audit by the Auditor General of Pakistan. PTCL's response is unacceptable as after the 18th Constitutional amendment, article 170 of the Constitution of Islamic Republic of Pakistan has the overriding effect over section 38 (3) of the said Act and therefore, statutory audit of PTCL is to be performed by Auditor General of Pakistan.

Audit recommends that non production of record is a very serious matter and defaulters need to be dealt with under applicable disciplinary rules.

(Based on PDP No.1)

ANNEXURES

MFDAC PARAS

(Rs in million)

| S. No. | PDP No | Subject | Amount |
|-----------|---|---|--------|
| 1. | PAKISTAN TELECOMMUNICATION AUTHORITY (PTA) | | |
| 01 | 83-16 | Irregular and unjustified expenditure on account of procurement of firewall | 1.371 |
| 02 | 84-16 | Irregular expenditure on procurement of laptops | 5.470 |
| 03 | 89-16 | Blockage of government revenue due to non auction of old and unserviceable Govt. vehicles | 17.100 |
| 04 | 90-16 | Irregular advance payment of legal fee | 4.475 |
| 05 | 94-16 | Unlawful usage of frequency spectrum by PEMRA | 0 |
| 06 | 96-16 | Illegal use of frequency by various operators and loss | 10.000 |
| 07 | 99-16 | Irregular creation of 40 posts in executive grades (SEG-I to EG-3) without revision of employees service regulations | 0 |
| 08 | 100-16 | Non-Generation of internal audit report and in-effective and scanty role of internal audit department | 0 |
| 09 | 101-16 | Non Approval of Accounting System from AGP being operated in PTA | 0 |
| 10 | 105-16 | Irregular retention in DDO account on closing of the financial year | 2.081 |
| 11 | 107-16 | Loss due to non recovery of outstanding house building advance (HBA) and motor car advance (MCA) from officer resigned from service | 1.560 |

| | | | |
|--------------|--------|--|--------------|
| 12 | 108-16 | Loss due to non recovery of valuable assets of PTA and outstanding house building advance from officer resigned from service | 1.351 |
| 13 | 109-16 | Loss due to non recovery of outstanding advances from ex officers | 2.299 |
| 14 | 111-16 | Less and Non deduction of Income Tax | 4.553 |
| Total | | | 50.26 |

| | | | |
|--------------|---|---|-------------------|
| 2. | FREQUENCY ALLOCATION BOARD (FAB) | | |
| 01 | 159-16 | Illegal use of Frequencies by various operators and loss | 10.000 |
| 02 | 160-16 | Non Generation of internal audit report and in effective and scanty role of internal audit department | 0 |
| 03 | 161-16 | Irregular retention in DDO account on closing of financial year | 18.173 |
| 04 | 163-16 | Illegal trading and diversion of frequency by WLL operators | 21,000.000 |
| 05 | 165-16 | Non realization of bid money and spectrum auction fee | 0 |
| Total | | | 21,028.173 |

| | | | |
|--------------|--|---|-------------|
| 3. | NATIONAL RADIO TELECOMMUNICATION CORPORATION (NRTC) | | |
| 01 | 121-16 | Short receipt of sales tax and non refund of LD charges | 3.89 |
| Total | | | 3.89 |

| | | | |
|-----------|---|--|--------|
| 4. | INFORMATION COMMUNICATION TECHNOLOGY RESEARCH AND DEVELOPMENT FUND (ICT R&D) | | |
| 01 | 61-16 | Excess Payment on Account of Scholarship Program | 44.740 |

| | | | |
|--------------|--------|--|------------------|
| 02 | '62-16 | Irregular expenditure on conferences, events and exhibitions | 11.034 |
| 03 | 67-16 | Unwise decision of Board regarding grant of 20% additional duty allowance | 1.624 |
| 04 | 73-16 | Unauthorized appointment as company secretary and excess payment of additional allowance | 0.084 |
| 05 | 77-16 | Difference in two sets of figures | 883.815 |
| 06 | 79-16 | Un-reconciled amount of receivables | 352.055 |
| 07 | 182-16 | Unlawful Appointment of Receptionist | 0 |
| 08 | 185-16 | Delays in finalization of proposals by the external evaluators | 59.990 |
| 09 | 186-16 | Non preparation of comprehensive Human Resource Manual | 0 |
| Total | | | 1,353.342 |

| | | | |
|-----------|---|---|-------|
| 5. | NATIONAL TELECOMMUNICATION CORPORATION (NTC) | | |
| 01 | 09-16 | Irregular expenditure on purchase of air conditioners | 0.497 |
| 02 | 10-16 | Irregular expenditure on purchase of drop and jumper wire | 0.274 |
| 03 | 11-16 | Non deduction of GST charges | 0.361 |
| 04 | 16-16 | Non realization of on account of pre deposit works | 8.374 |
| 05 | 21-16 | Non deduction of LD charges from the contractor | 1.638 |
| 06 | 22-16 | Non imposition of LD charges from the contractor | 0.084 |
| 07 | 23-16 | Irregular expenditure on purchase of computers and accessories | 0.256 |
| 08 | 24-16 | Irregular expenditure of on account of payment to security guards | 0.600 |
| 09 | 25-16 | Non realization of on account of pre deposit works | 3.134 |

| | | | |
|--------------|--------|--|---------------|
| 10 | 56-16 | Irregular expenditure on account of payment to security guards | 1.620 |
| 11 | 57-16 | Non recovery on account of damage charges | 0.643 |
| 12 | 193-16 | Non deduction of stamp duty on procurements | 1.206 |
| 13 | 194-16 | Irregular expenditure of without calling open tender | 7.787 |
| 14 | 199-16 | Non Generation of Internal Audit Report and In effective and scanty role | 0 |
| 15 | 201-16 | EVO services provided by PTCL | 0 |
| Total | | | 26.474 |

| | | | |
|--------------|--|--|---------------|
| 6. | SPECIAL COMMUNICATIONS ORGANIZATION (SCO) | | |
| 01 | 02-16 | Irregular transfer of revenue and non revision of agreement with PPO Department. | 59.752 |
| 02 | 07-16 | Unauthorized expenditure without availability of Posts. | 3.392 |
| 03 | 132-16 | Unauthorized expenditure without availability of Posts. | 5.869 |
| Total | | | 69.013 |

| | | | |
|-----------|---|--|--------|
| 7. | TELEPHONE INDUSTRIES OF PAKISTAN (TIP) | | |
| 01 | 135-16 | Loss due to less realization on account of quarter rent | 0.831 |
| 02 | 141-16 | Unauthorized expenditure due to engagement of staff in excess of the sanctioned strength | 13.769 |
| 03 | 145-16 | Non realization of receivables | 0.207 |
| 04 | 146-16 | Non finalization, increasing trend of court cases and payment of legal and professional fees | 1.282 |

| | | | |
|--------------|--------|--|---------------|
| 05 | 147-16 | Non posting of bank scrolls payments in the ledger by TIP | 0 |
| 06 | 148-16 | Unauthorized inclusion of closed pension accounts in the actuarial pension list of 2012-13 | 0 |
| 07 | 150-16 | Excess payment on account of commutation | 0.188 |
| 08 | 151-16 | Unlawful establishment of colony board and non revision of ratio for sharing of colony board expenditure | 0 |
| 09 | 153-16 | Violation of the corporate governance rules 2013 and non participating of a member in the board meetings | 0 |
| Total | | | 16.277 |

| | | | |
|--------------|-------------------------------------|---|-----------------|
| 8. | UNIVERSAL SERVICE FUND (USF) | | |
| 01 | 30-16 | Unlawful expenditure on rented vehicles and excess payment | 5.242 |
| 02 | 32-16 | Irregular expenditure on procurement | 9.054 |
| 03 | 37-16 | Unwise decision regarding award of work for RTeS Shangla and loss | 456.000 |
| 04 | 50-16 | Difference in two sets of figures between PTA & MoIT | 5,557.247 |
| 05 | 52-16 | Un-reconciled amount of receivables | 1,559.587 |
| Total | | | 7,587.13 |

