AUDIT REPORT ON THE ACCOUNTS OF TELECOMMUNICATION SECTOR AUDIT YEAR 2016-17

AUDITOR-GENERAL OF PAKISTAN

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ON
THE ACCOUNTS OF
TELECOMMUNICATION SECTOR
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ABBREVIATIONS & ACRONYMS

ADP	:	Annual Development Plan
APC	:	Access Promotion Contribution
CBC	:	Community Broad Band Centre
CC	:	Coaxial Cable
CCTV	:	Close Circuit Television
CDMA	:	Code Division Multiple Access
CFR	:	Cost & Freight
CGA	:	Comptroller General of Accounts
CMA	:	Controller Military Accounts
CMO	:	Cellular Mobile Operators
CWO	:	Civil Works Origination
DAC	:	Departmental Accounts Committee
DDO	:	Drawing & Disbursing Officer
DPLC	:	Domestic Private Leased Circuits
DWP	:	Development Working Party
EBC	:	Educational Broadband Centers
ECC	:	Economic Coordination Committee
ECNEC	:	Executive Committee of National Economic Council
EE	:	External Evaluators
FED	:	Federal Excise Duty
FAB	:	Frequency Allocation Board
FAQ	:	Frequently Asked Question
FBA&AP	:	Financial Budgeting Accounting & Audit Procedure
FCF	:	Federal Consolidated Fund
FOB	:	Freight on Board
FWO	:	Frontier Works Organization
3G	:	Third Generation
4G	:	Forth Generation
GHQ	:	General Headquarter
GoP	:	Government of Pakistan
GSM	:	Global Systems of Mobile
HVAC	:	Heating Ventilation & Air-conditioning
KPK	:	Khyber Pakhtunkhwa

LC	:	Letter of Credit
LDI	:	Long Distance International
LL	:	Local Loop
LMR	:	Land Mobile Radios
LPAF	:	Late Payment Additional Fee
LTE	:	Long Term Evaluation
MO	:	Military Operations
MoIT	:	Ministry of Information Technology
MoDP	:	Ministry of Defence Production
MSAN	:	Multi Service Access Networks
MSDN	:	Multi Services Data Network
NGMS	:	Next Generation Mobile Service
NHA	:	National Highway Authority
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
PIO	:	Principal Investigating Organization
PPRA	:	Public Procurement Regulatory Authority
PRI	:	Primary Rate Interference
PSDP	:	Public Sector Development Programme
PTA	:	Pakistan Telecommunication Authority
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
TDM	:	Time Division Multi Plexing
TIP	:	Telephone Industries of Pakistan
TT	:	Telegraphic Transfer
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 2015-16 was conducted during 2016-17 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 which are under the administrative control of Ministry of Information Technology and Ministry of Defence Production.

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).

Sd/-

Dated: 24th February, 2017

Rana Assad Amin
Auditor-General of Pakistan

EXECUTIVE SUMMARY

The Audit Report presents results of the audit of the accounts for financial year 2015-16 of the Telecommunication Sector which includes National Radio and Telecommunication Corporation (NRTC), Frequency Allocation Board (FAB), National Information Communication Technology Research and Development Fund Company (NICT R&D Co), National Telecommunication Corporation (NTC), Pakistan Telecommunication Authority (PTA), Special Communications Organization (SCO), Telephone Industries of Pakistan (TIP) and Universal Service Fund Company (USF Co).

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

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 2015-16, whereas, FAB, NTC, National ICT R&D Fund Company, TIP, NRTC and USF Company did not provide the financial statements for the year 2015-16, 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 eight (08) entities of Telecommunication Sector.

The Directorate General Audit had a budget allocation of Rs 61 million for the financial year, a human resource of 38 officers and staff and utilized 3067 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 26,217.164 million and revenue of Rs 79,404.426 million. DG Audit PT&T audited the expenditure of Rs 6,492.723 million which is 25% of the auditable budget allocation and audited the amount of revenue of Rs 21,130.130 million which is 27% of total revenue.

b. Recoveries at the instance of audit

The recoveries of Rs 59,843.521 million were pointed out by the Audit, out of which recovery of Rs 57,719.277 million was accepted and recovery of Rs 14,885.312 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 agreed to comply with the DAC directives and have taken following corrective measures:

- PTA has drafted its new accounting procedure and manual. It has been submitted for approval of the Auditor General of Pakistan, being 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 done through the Post Office Department.

- SCO management had 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 had 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 to fix responsibility and effect recovery from the approving authority.

- DAC in its meeting held on 12th January, 2016 while discussing the 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 existing sanction strength.

e. Key Audit Findings

The Audit Report comprises 74 Audit Paras pointing serious irregularities as follows:

i. Non-production of record was pointed out in one (01) audit para.[1]

ii. Recoveries were pointed out in twenty seven (27) audit paras amounting to Rs 57,719.278 million.[2]

iii. Violation of PPRA Rules was pointed out in three (03) audit paras amounting to Rs 88.221 million.[3]

iv. Unlawful and unauthorized utilization of resources, promotions, appointments and changes in the regulations were noted in three (03) audit paras amounting to Rs 45.066 million.[4]

v. Internal Control Weaknesses and violation of various procedures was pointed out in fourteen (13) audit paras amounting to Rs 44,703.509 million.[5].

vi. Unlawful payments of extra allowances and financial benefits were pointed out in eleven (11) audit paras amounting to Rs 152.163 million. [6]

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[1] Para 6.3.1

[2] Para 1.4.1 to 1.4.8, 3.6.1, 4.6.1 to 4.6.7, 5.5.1 to 5.5.6, 6.5.1, 7.5.1, 7.5.2, 8.6.1 and 8.6.2

[3] Para 1.3.2, 4.4.1 and 6.4.2

[4] Para 3.5.1 to3.5.3, 5.3.1 and 5.3.7

[5] Para 2.4.1, 4.5.1 to 4.5.5, 5.4.1, 5.4.2, 7.4.1 to 7.4.3, 8.5.1 and 8.5.2

[6] Para 2.3.1 to 2.3.3, 5.3.2 to 5.3.6, 5.3.8, 5.3.10 and 5.3.11

f. Recommendations

i) 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.

ii) The management of FAB, NTC and TIP should expeditiously pursue the cases for transfer of ownership of vested properties i.e land/quarters/plots/microwave stations.

iii) The case regarding forceful withdrawal of tax by FBR may be pursued with them for stoppage of forceful deduction from PTA bank accounts and early recovery of the amount.

iv) The unlawful increases and unauthorized payments on account of employee related expenses should be stopped and overpayments should be recovered.

v) The losses, irregularities and unauthorized payments may be investigated, responsibilities fixed, recoveries effected and disciplinary action be taken against those at fault.

vi) The management of National ICT R&D Fund needs to comply with its approved rules and manuals for utilization of resources and hiring of staff.

vii) The management of telecom entities should strengthen their receivable management and recover the huge outstanding dues.

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)

Sl. No.	Description	No	Budget	
1	Total PAOs under Audit Jurisdiction	02	Budget Receipts	2,6217.164 79,404.426
2	Total Formations under Audit Jurisdiction	37	Budget Receipts	2,6217.164 79,404.426
3	Total PAOs Audited	02	Budget Non-Budgeted Payments Receipts	6,492.723 191,204.581 21,130.130
4	Total Formations Audited	21		218,827.434
5	Audit Inspection Reports	21		218,827.434
6	Performance Audit Reports	02	i) Management & effective utilization of R&D Fund ii) Management & effective utilization of USF Fund	

Table 2: Audit observations regarding Financial Management

(Rs in million)

Sl. No.	Description	Amount placed under Audit Observation
1	Unsound asset management	215.012
2	Weak financial management	101,993.893
3	Weak internal controls relating to financial management	5,600.042
4	Others	0
	Total	**107,808.947**

Table 3: Outcome Statistics

(Rs in million)

Sl. No.	Description	Expenditure on Acquiring Physical Assets (Procurement)	Expenditure on Civil Works	Receipts	Budgeted	Non-Budgeted Payments	Total current year	Total last year
1	Outlays Audited	140.250	0	21,130.130	6,352.473	191,204.581	218,827.434	266,731.101
2.	Total Amount under Audit Observations	86.171	-	18,086.371	293.976	89,342.429	107,808.947	167,007.314
3.	Recoveries Pointed out by Audit	-	-	-	59,843.521		59,843.521	34,194.428
4.	Recoveries Accepted at the Instance of Audit	-	-	-	57,719.277		57,719.277	32,755.543
5	Recoveries Realized at the Instance of Audit	*	-	-	14,815.376		14,885.312	1,424.923
		**			69.936			

* : 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.	44,270.777
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.	5,815.054
5.	Recoveries, receivables and overpayments, representing cases of established overpayments or misappropriations of public money.	57,719.277
6.	Others including cases of accidents, negligence etc.	3.839
	Total	**107,808.947**

Table 5: Cost-Benefit

(Rs in million)

Sl.No	Description	Amount
1	Outlays audited	218,827.434
2	Expenditure on Audit	61.000
3	Recoverable realized at the instance of Audit	14,885.312
Cost Benefit Ratio of current audit year 2016-17		**244.0:1.0**
Cost Benefit Ratio of previous audit year 2015-16		**12.2:1.0**
Cost Benefit Ratio for the audit year 2014-15		**95.3:1.0**

MINISTRY OF DEFENCE PRODUCTION

CHAPTER-1

NATIONAL RADIO & TELECOMMUNICATION CORPORATION (Pvt) Ltd.

1. NATIONAL RADIO & TELECOMMUNICATION CORPORATION PRIVATE LIMITED

1.1 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 the 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 of 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.

1.2 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. However, audit had observed that the Receivable Management and Financial Reporting of the entity were weak as evident from the ensuing audit paras.

AUDIT PARAS

1.3 Irregularity & non-compliance

1.3.1 Unauthorized advance payment of US$ 148,155 and Euro 101,850 (PkRs 22.367 million) through TT by splitting

According to State Bank of Pakistan's FE Circular No.01 dated 30.01.2010, State Bank of Pakistan has allowed advance payments against letters of credit up to 100% of the FOB or CFR value of the imported goods. SBP's FE Circular No.03 dated 29.04.2008 further stipulates that the advance payment facility up to US$ 10,000 or equivalent thereof in other foreign currencies, per invoice for import of eligible items will now remain available to the importers only against import of spare parts, raw materials by manufacturing & industrial users for their own use without requirement of LC or bank guarantee.

NRTC management made procurements from foreign suppliers amounting to US$ 148,155 and Euro 101,850 by issuing purchase orders by splitting. The management made 100% advance payment to the suppliers through TT's by keeping the amounts below US$ 10,000 in order to avoid the requirement of Letter of Credit.

The matter was reported to PAO and management in December 2016. It was replied that NRTC being an importer and manufacturing unit was facing great difficulties to procure the parts / components from the foreign vendors who were reluctant to supply the raw material and parts / components to Pakistan especially in the prevailing country situations. Certain firms which were observed by Audit, did not agree to deal in LC and demanded for 100% advance payment via Credit card or TT. The reply was not acceptable as payment was made by splitting and approval of the competent authority was not obtained.

DAC in its meeting held on 28th December, 2016, directed the management to take up the complete case with the Ministry of Finance through the Ministry of Defence Production for clarification on the issue. No further progress was intimated till finalization of this report.

Audit recommends that the matter may be investigated and expenditure be got regularized by obtaining approval from the competent authority.

(DP No.210)

1.3.2 Irregular expenditure on procurement without tender Rs 14.834 million

According to rule 12 (2) of Public Procurement Rules, 2004, all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

NRTC made procurements from different national & international vendors amounting to Rs. 14,834,352 during the year 2015-16 without obtaining competitive rates through tender. The detail is as under:

Sl No	DP No	Description	Amount in Pak Rupees
1	217-17	Irregular expenditure on procurement of parts & components for PFX-1604 Project	2,799,472
2	219-17	Irregular expenditure on purchase of Laptops	4,984,200
3	221-17	Irregular expenditure on purchase of CNC 3-Axis Machining Centre	7,050,680
		Total	**14,834,352**

The matter was reported to PAO and management in December 2016. It was replied against Sr. No. 1 that parts and components were sensitive in nature. These items were rare in open market and had feature to work in extreme weather. Regarding Sr. No. 2, it was replied that procurement process of laptops was completed from 22.02.2016 to 18.03.2016 to fulfill urgent contractual obligation of UGS Project. This project was of sensitive nature and was related to national security. Further against Sr No. 3, it was replied that CNC Machining Centre was required on urgent basis to combat the work load of Software Defined Radios (SDRs). Moreover, prior exemption was obtained from the Principal Accounting Officer i.e Secretary DP.

The replies were not acceptable as rates were obtained through quotations instead of tenders and exemption certificates were not relevant to this year procurement. The laptops were not of sensitive nature. Further, the procurements at Sr. No. 3 were not made on urgent basis as the quotations were obtained on 22.06.2015 and work order was issued on 27.08.2015 after more than 2 months.

DAC in its meeting held on 28th December, 2016, directed the management i) to obtain ex-post facto exemption certificate from PAO for 2015-16 ii) refer the case to PPRA for clarification iii) conduct a facts finding inquiry within a month. No further progress was intimated till finalization of this report.

Audit recommends that the matter may be investigated and responsibility for violation of rule be fixed.

(DP No.217, 219 & 221)

1.4 Receivables

1.4.1 Non-recovery of dues against delivered stores -Rs 302.653 million

According to clauses 3.1 & 3.2 of contract agreement, 80% payment including freight, insurance and 16% GST shall be made against supplier bills duly supported with delivery advice, inspection note. The balance 20% payment will be paid on submission of bill duly supported by the consignee's Certificate Receipt Voucher (CRV).

NRTC management made agreements with DG Civil Works Organization (CWO) Rawalpindi for establishment of maintenance facilities for Software Defined Radios (SDRs) and Land Mobile Radios (LMRs) on 28th June, 2013.

NRTC supplied complete store and provided all necessary documents to DG CWO Rawalpindi but did not recover an amount of Rs 302,652,886.

The matter was reported to PAO and management in December 2016. It was replied that pointed amount was pending and pursuance at the appropriate level was being made. The efforts for allocation of funds had been made and bill would be resubmitted after allocation of funds.

DAC in its meeting held on 28th December, 2016, directed the management for early realization of the amount as per contract agreement besides getting it verified from audit. No further progress was intimated till finalization of this report.

Audit recommends that the amount of store supplied may be recovered and got verified from audit.

(DP No.202)

1.4.2 Non-recovery of dues from the Ministry of Defence of Kingdom of Saudi Arabia US$ 1,686,488 (Rs 175.395 million)

According to clause 3.2.4.1 and 3.2.4.2 (Special Provisions) of contract, supplier shall be paid ninety per cent of the contract value for the partial shipment when the supplier submits the documents i.e commercial invoice, airway bills, insurance certificate, certificate of conformity, certificate of origin, to the relevant bank where the Letter of Credit (LC) has been opened (within a period of time not to exceed 60 days). The supplier will be paid 10% of the contractual value of the partial shipment against a letter issued by the Government through instructions from the Saudi Arabian Monetary Agency (SAMA) to the relevant bank where LC has been opened which indicates that the partial shipment has been received at Port of Entry.

NRTC made two contracts with The Ministry of Defence, Kingdom of Saudi Arabia for delivery of Digital Electronic Field Telephone Exchange PFX-3208 with accessories and magnato / auto field telephone with training services and up gradation of old system at total cost of US$ 4,247,984. The items were delivered and subsequently NRTC raised bills. An amount of US$ 2,561,676 was received whereas remaining amount of US$ 1,686,488 was still not recovered.

The matter was reported to PAO and management in December 2016. It was replied that NRTC management was vigorously pursuing the case for early receipt of due amount. Latest reminder had also been issued against each case.

DAC in its meeting held on 28th December, 2016, directed to recover the amount at the earliest besides getting it verified from Audit. No further progress was intimated till finalization of this report.

Audit recommends that the balance amount may be recovered and got verified from Audit.

(DP No.223)

1.4.3 Loss due to non-receipt of exchange rate fluctuation charges – Rs 55.025 million

According to clause 15 and 8.2.3 of the contract agreements, exchange rate has been taken as 1 US$ = Rs 95.00. However, any fluctuation in the rate of exchange at the time of payment to the Original Equipment Manufacturer (OEM) will be adjusted on production of bank documents payable at actual. In case of increase in US dollar rate, the purchaser will make payment of the additional amount to the NRTC. Amount saved by NRTC (if any) due to reduction in US dollar rates will be deposited / refunded to the purchaser.

NRTC management made agreements with DG Munitions Production Rawalpindi and DG CWO for supply of Software Defined Radio Sets (SDRS) and PRC-9661 VHF Radio Equipment. The payment of Foreign Exchange Component (FEC) was made by the clients to NRTC in US dollars. However, NRTC made payment to M/s Aselsan Electronic Turkey for procurement at higher rates than the amount received from the clients. This resulted in loss of Rs 55,024,512 to NRTC due to fluctuation in exchange rate.

The matter was reported to PAO and management in December 2016. It was replied that observed amount was pending and pursuance at the appropriate level was being made. Funds had been allocated against the above mentioned contract. Latest position of the case would be intimated in due course of time.

DAC in its meeting held on 28th December, 2016, directed the management for early realization of the amount as per contract agreement besides getting it verified from audit. No further progress was intimated till finalization of this report.

Audit recommends that the loss on account of fluctuation in exchange rate may be recovered and got verified from Audit.

(DP No.201)

1.4.4 Loss due to non-recovery of repair & maintenance charges - Rs 46.518 million

According to Rule 26 of GFR Vol-I, it is the duty of the departmental controlling officers to see that all sums due are regularly and promptly assessed, realized and duly credited in the accounts. Furthermore, as per Rule 28 ibid, no amount due should be kept outstanding without sufficient reasons.

NRTC management executed contracts with the GHQ Signal Directorate Rawalpindi on account of repair work against contracts of LMR & Phone Patch System. However, the management of NRTC continued to provide the services of repair work after the expiry of warranty period of contracts for which NRTC raised invoices / bills amounting to Rs 46,517,706 during 2014-15 to 2015-16 but nothing was received till date.

The matter was reported to PAO and management in December 2016. It was replied that NRTC management was vigorously pursuing the case for early receipt of dues.

DAC in its meeting held on 28th December, 2016, directed the management to settle the issue with the concerned department and recover the amount within three weeks besides getting it verified from audit. No further progress was intimated till finalization of this report.

Audit recommends that the outstanding dues may be recovered and got verified from Audit.

(DP No.207)

1.4.5 Non-recovery of dues against delivered store from Inspector General Prison KPK – Rs 34.075 million

According to clause 6.3 of contract agreement between NRTC and Inspector General of Prison KPK, 50% balance amount will be paid to NRTC within 30 days from the date of delivery / receipt and installation of the equipment at end user sites on submission of bill / invoice by the NRTC of the respective sites as per actual jamming solutions installed.

NRTC management made agreement with Inspector General (IG) of Prison KPK for supply, installation & operation of jamming solution in KPK Jails with a cost of Rs 68,150,590 on 24.05.14. The I.G Prison, KPK made the payment of Rs 26,578,732 on 07.11.2014. NRTC delivered the store and raised the bill amounting to Rs 34,075,295 which could not be realized despite the lapse of sixteen months.

The matter was reported to PAO and management in December 2016. It was replied that bill for remaining amount Rs 34,075,295 was being pursued and reminder had also been issued for early realization.

DAC in its meeting held on 28th December, 2016, directed the management for recovery of the balance amount besides getting it verified from audit. No further progress was intimated till finalization of this report.

Audit recommends that the balance amount may be recovered and got verified from Audit.

(DP No.204)

1.4.6 Non-recovery from M/s Resources Communication Trading - US$ 72,737.720 (Rs 7.565 million)

According to Rule 26 of GFR Vol-I, it is the duty of the departmental controlling officers to see that all sums due are regularly and promptly assessed, realized and duly credited in the accounts. Furthermore, as per Rule 28 ibid, no amount due should be kept outstanding without sufficient reasons.

M/s Resources Communication Trading, Riyadh, Kingdom of Saudi Arabia placed a purchase order for supply of different spare parts on repeat order basis with the total cost of US$ 72,737.72 equivalent to Pak Rs 7,564,723 on 20.05.2015. The store was delivered on 23rd July, 2015 but neither any bill was raised nor amount received by NRTC after lapse of more than one year.

The matter was reported to PAO and management in December 2016. It was replied that funds had been released from the Kingdom of Saudia Arabia against the 02 purchase orders. Latest credit position would be communicated in the next 4 to 5 days.

DAC in its meeting held on 28th December, 2016, directed the management to recover the amount at the earliest and get it verified from Audit. No further progress was intimated till finalization of this report.

Audit recommends that outstanding amount may be recovered and got verified from Audit.

(DP No.224)

1.4.7 Short receipt of dues against delivered stores – Rs 3.607 million

According to clause 2 of contract between NRTC and GHQ General Staff Branch, MO Directorate Rawalpindi, 100% payment will be released after delivery / installation of equipment / store and job completion on submission of documents i.e. Bill / invoice, Delivery Advice & Job Completion Certificate.

NRTC made a contract with GHQ General Staff Branch, Military Operations Directorate Rawalpindi for supply and installation of Security and

Surveillance Solution with a cost of Rs 11,407,500. NRTC installed Security Surveillance System successfully and raised bill on 23rd November, 2015. MO Directorate made payment of Rs 7,800,000 on 04.07.16 after lapse of seven months but an amount of Rs 3,607,500 was still outstanding.

The matter was reported to PAO and management in December 2016. It was replied that NRTC had taken up the case with GHQ Military Operation Directorate for release of balance amount of Rs. 3,607,000.

DAC in its meeting held on 28th December, 2016, directed the management to expedite the process of recovery besides getting it verified from Audit. No further progress was intimated till finalization of this report.

Audit recommends that outstanding amount may be recovered and got verified from Audit.

(DP No.206)

1.4.8 Loss due to less charging of dues to Headquarter Frontier Corps Quetta – Rs 2.500 million

According to clause 14 of contract made between NRTC & Headquarter Frontier Corps (FC) Quetta, 100% payment of stores for (each) consignment will be paid to NRTC by Headquarter FC Balochistan Quetta through Finance Branch.

NRTC management quoted the rate of Modified Jammer (MJ-15) of Rs 789,750 per piece but NRTC made contract with Headquarter Frontier Corps (FC) Quetta for supply of 25 Jammers (MJ-15) @ Rs 689,750 per piece which was less than the rate quoted in the quotation. Resultantly, NRTC sustained loss of Rs 2,500,000 due to less charging of price. NRTC requested to HQ Frontier Corps Quetta that unit price of MJ-15 Jammer was Rs 789,750 instead of Rs 689,750 as it was a typing mistake but HQ Frontier Corps Quetta did not make the payment of Rs 2,500,000.

The matter was reported to PAO and management in December 2016. It was replied that NRTC management was vigorously pursuing the case for early receipt of pending dues.

DAC in its meeting held on 28th December, 2016, directed the management for recovery of the amount within one month besides getting it verified from audit. No further progress was intimated till finalization of this report.

Audit recommends that outstanding amount may be recovered and got verified from Audit.

(DP No.205)

1.4.9 Loss due to excess delivery of stores – Rs 1.429 million

According to clauses 7 of contract agreement, the seller shall supply the contracted stores as per the bill of quantity and standard specification of the equipment / store mentioned in Annexure A to C.

NRTC management made agreements with DG CWO Rawalpindi for establishment of maintenance facilities for Software Defined Radios (SDRs) and Land Mobile Radios (LMRs) on 28th June, 2013. NRTC supplied the store to DG CWO Rawalpindi during 2013 to 2016 amounting to Rs 304,082,287 but the Stores of Rs 1,429,401 were supplied in excess of the agreement. NRTC raised bill of Rs 302,652,886 on 29th July, 2016 as per agreement instead of raising the claim against the delivered store of Rs 304,082,287. NRTC did not recover the value of excess stores of Rs 1,429,401 from the DG CWO Rawalpindi.

The matter was reported to PAO and management in December 2016. It was replied that concerned department had been directed to take up the case with the customer for release of amount for the excess store delivered.

DAC in its meeting held on 28th December, 2016, directed the management for recovery of the amount within one month besides getting it verified from audit. No further progress was intimated till finalization of this report.

Audit recommends that outstanding amount may be recovered and got verified from Audit.

(DP No.203)

MINISTRY OF INFORMATION TECHNOLOGY
(IT & TELECOM DIVISION)

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 Ministry of Information Technology and Telecom Division (MoIT&T) 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. However, audit had observed that the Financial Reporting and Controls of the entity were weak as evident from the ensuing audit paras.

AUDIT PARAS

2.3 Irregularity and Non-Compliance

2.3.1 Unauthorized revision of pay scales and payment made to FAB employees – Rs 29.860 million

Finance Division (Regulation Wing) had approved three pay packages of FAB in the year 2007, 2008 and last in 2012 which were applicable till any new revision by the Finance Division.

FAB management revised its pay scales w.e.f 01.07.2015 without approval of the Finance Division and paid an amount of Rs 29,860,111 on account of pay to the officers during 2015-16.

The matter was reported to PAO and management in December 2016. It was replied that in the year 2012, Finance Division approved PTA and FAB Pay Scales 2011. Thereafter, PTA formulated Pay Scales 2015 which were extended to the employees of FAB being sister organization of PTA. The reply was not acceptable as FAB revised and adopted the pay scales 2015 without the approval of Finance Division.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to send the detailed reference containing the view points of Audit and PTA/FAB to the Ministry of Finance for clarification. No further progress was intimated till finalization of this report.

Audit recommends that revised pay scales 2015 may be got approved from the Finance Division.

(DP No.170)

2.3.2 Unauthorized payment on account of Adhoc Relief Allowance 2015 and car allowance - Rs 5.117 million

According to Finance Division (Regulation Wing) letter No.F.4(3)R-

4/2011 dated 19th August, 2015, Autonomous / Semi-Autonomous Bodies and Corporations etc will forward the cases of only executive / supervisory staff with the recommendations of their respective Boards for concurrence of the Finance Division for grant of Adhoc Relief Allowance – 2015 @ 7.5% of basic pay. Further, conveyance allowance was allowed @15% of the mean of the pay scales of FAB.

FAB management allowed Adhoc Relief Allowance 2015 @ 7.5% of basic pay to its executive / supervisory staff and Car Allowance to its officers of BPS-19 @Rs.60,000 per month instead of mean of pay scales without approval of the Finance Division as detailed below:

Sr.No	DP No	Description	Amount
1	172-17	Adhoc Relief Allowance 2015	1,814,292
2	173-17	Car Allowance	3,303,162
		Total	**5,117,454**

The matter was reported to PAO and management in December 2016. It was replied that in the year 2012, Finance Division approved PTA and FAB Pay Scales 2011. Thereafter, PTA formulated Pay Scales 2015 which were extended to the employees of FAB being sister organization of PTA. The reply was not acceptable as the payment of above referred allowances was made without the approval of the Finance Division.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to send the detailed reference containing view points of Audit and PTA / FAB to the Ministry of Finance for clarification. No further progress was intimated till finalization of this report.

Audit recommends that this unlawful practice should be stopped immediately and the expenditure be got regularized from the Finance Division or recovered under intimation to audit.

(DP No.172 & 173)

2.3.3 Un-authorized enhancement in frozen / capped allowances

According to Sl. No. xi of OM No. F.4(15)R-4/2004 dated 16th July, 2012 issued by Finance Division, all the special pays, special allowances or the allowances admissible as percentage of pay (excluding those which are capped by fixing maximum limit) including house rent allowance shall stand frozen at the level of its admissibility as on 30.06.11.

Finance Division had frozen all the special pays, special allowances or the allowances admissible as percentage of pay at the level of its admissibility as on 30.06.2011 but FAB management enhanced the utility allowance, medical allowance and conveyance allowance w.e.f 01-07-2011 on pay scales 2011 without approval of the Finance Division. The FAB made the payment of above allowances on mean of the Pay Scales 2011 instead of mean of pay scales of 2008.

The matter was reported to PAO and management in December 2016. It was replied that FAB in pursuance of approvals of Finance Division implemented and extended Pay Package including Utility Allowance 20%, Medical Allowance 20% and conveyance Allowance 30% of means of Pay Scales 2011 to its employees strictly in line with policy of PTA being sister organization of FAB. The reply was not acceptable as frozen allowances were enhanced and paid without approval of the Finance Division.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to send the detailed reference containing the view points of Audit and PTA to the Ministry of Finance for clarification. No further progress was intimated till finalization of this report.

Audit recommends that this unlawful practice should be stopped immediately and the expenditure be got regularized from the Finance Division under intimation to audit.

(DP No.171)

2.4 Internal Control Weakness

2.4.1 Non-possession of vested quarters and land from PTCL

According to Gazette Notification No. SRO:12 (1)/95 dated 31.12.1995, two "E" type quarters situated in PTCL Colony Quetta, two (2) kanals of land at alternate Microwave station Quetta and (2) kanals of land at alternate Microwave station, Sukkur were allotted to FAB by PTCL.

FAB management did not acquire possession and ownership of two "E" type quarters situated in PTCL Colony Quetta and two (2) kanals of land of alternative microwave stations at Quetta and Sukkur from PTCL despite lapse of 20 years.

The matter was reported to PAO and management in December 2016. It was replied that case was being perused with NTC authorities. However, it was informed by the NTC that due to non-provision of ownership documents by the PTCL the matter could not be resolved. The reply was not acceptable as FAB had not yet obtained the possession of vested assets despite lapse of 20 years.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to expedite the pursuance of the case and get possession of vested quarters and land under intimation to audit. No further progress was intimated till finalization of this report.

Audit recommends that the matter may be investigated with view to fix responsibility and vested assets be obtained from the concerned quarters.

(DP No.175)

CHAPTER-3

NATIONAL INFORMATION COMMUNICATION TECHNOLOGY RESEARCH & DEVELOPMENT FUND COMPANY

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

3.1 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 is under the control of the Federal Government. The balance to the credit of the R&D Fund does not lapse at the end of the financial year. The Research and Development Fund consists 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 is 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 coordinates 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.

3.2 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. However, audit had observed that the Receivable Management, Financial Reporting & Controls of the entity were weak as evident from the ensuing audit paras.

AUDIT PARAS

3.3 Irregularities and Non-Compliance

3.3.1 Non-compliance of Public Sector Companies (Corporate Governance) Rules, 2013

According to Rule 24 of Public Sector Companies (Corporate Governance) Rules 2013, every Public Sector Company shall publish and circulate a statement along with its annual report to set out the status of its compliance with these rules and shall also file with the Commission (SECP) and the registrar concerned such statement along with its annual report. Further Rule 12 (1) of ibid states that the Board shall set up the procurement committee to support it in performing its functions efficiently, and for seeking assistance in the decision making process to ensure transparency in procurement transactions and in dealing with the suppliers.

National ICT R&D Fund Company did not prepare a report of Compliance with Public Sector Companies (Corporate Governance) Rules 2013, for the year 2014-15 & 2015-16 and did not submit the same to Security Exchange Commission of Pakistan. Further, ICT R&D Fund Company did not constitute procurement committee and procured different items during 2015-16.

The matter was reported to PAO and management in December, 2016. It was replied that the statutory audit for 2014-15 had been finalized. After approval of BoD, the audited financial statements along with the compliance report would be submitted to SECP. The reply was not acceptable as the compliance reports for 2014-15 & 2015-16 had not been prepared despite the lapse of more than two years.

DAC in its meeting held on 26th & 27th December, 2016, directed the management that compliance report for 2014-15 & 2015-16 be prepared and sent to SECP and got verified from audit. Further procurement committee may also be got constituted from BoD. No further progress was intimated till finalization of this report.

Audit recommends that the report of compliance with Public Sector Companies (Corporate Governance) Rules 2013, for the year 2014-15 & 2015-16 may be prepared and submitted to SECP under intimation to Audit. Further, the Procurement Committee may also be constituted as per CGR 2013.

(DP No.80)

3.3.2 Non-provision of Annual Audited Financial Statements of R&D Fund Company

According to Section-33E (1) of Pakistan Telecommunication Re-organisation (Amended) Act, 2006, the accounts of Universal Service and Research and Development Funds shall be maintained in such form and manner as the Federal Government may determine and audited by Chartered Accountant as defined in the Chartered Accountants Ordinance 1961 (X of 1961). Moreover, section 33 E (3) ibid states that the Federal Government shall also publish after the end of every year a report on the state of Universal Service and Research and Development Funds and on its activities in this regard during that year.

ICT R&D Fund Manager (MoIT) prepared the financial statements for the financial year 2015-16 but these have not been audited from Chartered Accountants, so for.

The matter was reported to PAO and management in December, 2016. It was replied that the budget for the said audit had been approved by the management and the appointment of commercial auditors was under process. The reply was not acceptable as the Financial Statements for the year 2015-16 were not provided to audit duly approved by the Chartered Accountant.

DAC in its meeting held on 26th & 27th December, 2016, directed the management that the audited financial statements may be provided to audit within three months. No further progress was intimated till finalization of this report.

Audit recommends that the financial statements may be got audited from Chartered Accountants and be provided to audit for verification.

(DP No.86)

3.4 Performance

3.4.1 Non-accomplishment of e-facilities and accumulation of unused funds - Rs 4,355.68 million

According to 6.3.4 of Policy Framework, the ICT R&D Fund Company will invest in electronic facilities such as e-government, e-business and e-commerce during the years 2010-2015. Further, according to 33 D (2) of Pakistan Telecommunication (Re-organization) Act, 1996 (amended 2006), The Fund shall be utilized exclusively for prescribed research and development activities in the field related to Information and Communication Technology and other expenditure incurred by the Federal Government in managing Research and Development Fund.

National ICT R & D Fund Company could not achieve its objectives till financial year 2015-16 since its inception i.e 2006. Further, National ICT R&D Fund Company had received Rs 6,054.45 million during last three years and Company had utilized only funds to the tune of Rs 2,997.00 million for funding the projects and its operational expenses in last corresponding years. While an amount of Rs 4,355.68 million was available in the Fund for utilization. National ICT R&D Fund Company utilized hardly 49% of total funds.

The matter was reported to PAO and management in December, 2016. It was replied that company agreed with the view point of Audit. The company was in the process of review of the policy framework and would submit its recommendation to the Board for approval. The reply was not acceptable as the goals and objectives already set out in the policy frame work could not be achieved effectively.

DAC in its meeting held on 26th & 27th December, 2016, directed the management that policy framework may be reviewed and got approved from the Board at the earliest so that the predetermined objective as pointed by audit may be accomplished in true letter and spirit. No further progress was intimated till finalization of this report.

Audit recommends that policy framework may be reviewed and got approved from the Board under intimation to audit.

(DP No.89)

3.4.2 Loss due to in-ordinate delay in termination of project agreement - Rs 12.337 million

According to clause 7.2.3 of Project Funding Agreement, the Company may by issuing a notice of termination, terminate this agreement forthwith if the Principal Investigator is in breach of any of its obligation or has delayed the performance or delivery of any deliverable beyond thirty (30) days.

National ICT R&D Fund Company did not terminate the agreements as the deliverables of two projects were considerably delayed by the Principal Investigators which resulted into wasteful expenditure of Rs 12,338,400. The detail is as under:

(Rs in million)

Sr #	Name of Project	Date of Approval	Project Cost	Amount Disbursed	completion date	Current status
1	Clarity –Open source enterprise management system	15th May, 2008	12.202	5.734	September, 2009	Terminated on 10th February, 2016
2	Technical Development for automation of banking systems for Micro Finance Banks	27th May, 2008	10.891	6.604	-	Terminated on 17th March, 2016
			Total	**12.338**		

The matter was reported to PAO and management in December, 2016. It was replied that the termination of the projects was decided by the management in 2016. Deliverables against the contract were received and the payments were released only after receiving and verifying the deliverables. The reply was not acceptable as the agreements were not terminated in time as required by the agreement within due course of time.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to probe the project in detail at every step of the project for approval from the Project Appraisal Committee and Project Management Committee etc to establish whether the project was viable and PI / PIO (initiators) were capable to complete this project and its outcome be shared with audit. No further progress was intimated till finalization of this report.

Audit recommends that the directive of DAC may be implemented in true letter and spirit.

(DP No.96)

3.4.3 Non-Commercialization of Technical R&D Projects - Rs 10.887 million

According to Rule 5(2) (m) of R&D Fund Rules, 2006, the Board shall maintain commercial orientation for the company and actively explore, pursue and exploit commercial opportunities arising out of the research and development projects. Further, section 4.1 of Policy Framework of R&D Company stipulates to create a complete value chain rather than focusing on development of isolated projects. The innovative value chain ensures that the research carried out is well connected to industry and collaborated with industry, academia and research institutions. The National ICT R&D Fund shall select such research proposals for funding which have significant commercialization potential.

National ICT R&D Fund Company allocated Technical R&D Projects to Principal Investigators (PIs) and PIOs (evaluators of research proposals) who executed these Projects at a total cost of Rs 10,887,049. The Board as well as management of National ICT R&D Fund Company did not devise concrete policy towards the commercialization of these R&D Projects.

The matter was reported to PAO and management in December, 2016. It was replied that the commercialization policy would be prepared and submitted to BoD for approval. The reply was not acceptable as the commercialization policy had neither been prepared nor got approved from the BoD till date.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to prepare the commercialization policy at the earliest and present in the BoD under intimation to Audit. No further progress was intimated till finalization of this report.

Audit recommends that concrete and objective policy towards the commercialization of R&D Projects may be prepared and got approved from the BoD under intimation to audit.

(DP No.82)

3.5 Internal Control Weaknesses

3.5.1 Irregular appointments and payment of pay & perks-Rs 16.554 million

According to the advertisement published in the daily Dawn on 12th December, 2009, the criteria for the position of Manager Internal Audit was mentioned as "the candidate should have CA/ ACCA/ CIMA/ CPA", CIA qualified would be an advantage. Further, the criteria for the position of Manager IT was mentioned as "the candidate should have Master's degree in Computer Systems Engineering or Computer Sciences, Information Technology and have at least 5 years work experience.

The management of National ICT R&D Fund Company appointed two officers for the positions of Manager Internal Audit and Manager IT. These appointments were held irregular as detailed below:

Sl. No	DP No	Name of Position	Amount of Pay & Allowance	Remarks
1	93-17	Manager Internal Audit	14,816,957	The candidate claimed to be a Certified Public Accountant whereas the appointed officer possessed a fake degree.
2	95-17	Manager IT	1,737,290	The shortlisting of the candidates for the post of Manager IT was done by a private person who was appointed later on as GM Projects.
Total			**16,554,247**	

The matter was reported to PAO and management in December, 2016. It was replied that the case had been referred to Federal Investigation Agency (FIA) for initiation of proceedings accordingly based upon misrepresentation by the Ex-Manager Internal Audit. Further, against Sr. No 2 it was replied that GM projects had accepted the offer letter for the post of GM project before he shortlisted candidates for the position of manager IT. Further, the matter had been taken up by FIA. The reply was evasive as the short listing was done on 27.02.15 by a private person who had not been appointed in National ICT R&D Fund Company at that point of time and later on appointed as GM Projects on 10.3.2015. Further, the shortlisting was unjustified as the candidates of higher qualification and vast experience were ignored as explained in enquiry report conducted later on by the Company.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to pursue the cases with FIA and the outcome thereof be shared with audit. No further progress was intimated till finalization of this report.

Audit recommends that legal proceedings with FIA may be got finalized at the earliest and the recovery be effected under intimation to audit.

(DP No.93 & 95)

3.6 Receivables

3.6.1 Non-recovery of outstanding ICT R&D dues –Rs 2,366.989 million

Clause 6.1 of Long Distance International (LDI) License issued under section 21 of the Pakistan Telecommunication (Re-organization) Act, 1996 requires that the Licensee shall contribute to the ICT R&D Fund an amount calculated on the basis of 0.5% 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 / FAB mandated payments. Further, clause 4.2.2 further stipulates that the licensee shall make this contribution within 120 days of the end of financial year.

R & D Fund management failed to recover an amount of Rs 2,366,989,312 on account of ICT R&D contributions from the operators as appeared in the PTA receivable sheet. The ICT R&D Fund had not maintained its own receivable ledger and mechanism of recovery which showed ineffective receivable management and weak internal controls.

The matter was reported to PAO and management in December, 2016. It was replied that some amount has been recovered. The reply was not acceptable as the relevant record was not got verified from Audit.

DAC in its meeting held on 26th & 27th December, 2016, directed the management that the recovered amount may be got verified from audit and the remaining amount be recovered within two weeks. No further progress was intimated till finalization of this report.

Audit recommends that the outstanding dues may be recovered and got verified from audit.

(DP No.87)

CHAPTER-4

NATIONAL TELECOMMUNICATION CORPORATION

4. NATIONAL TELECOMMUNICATION CORPORATION

4.1 Introduction

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

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

4.2 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. However, audit had observed that the Receivable Management, Financial Reporting and Controls of the entity were weak as evident from the ensuing audit paras.

AUDIT PARAS

4.3 Fraud and Misappropriation

4.3.1 Irregularities in construction of NTC building

Rule 20 of GFR Vol-I stipulates that any loss of public money, departmental revenue or receipts or other property held by or on behalf of government caused by defalcation or otherwise should be immediately reported by the officer concerned to his immediate official supervisor as well as to the audit.

NTC management referred a case of irregularities during tender proceedings / award of work and low quality construction work of NTC Regional Office Building, Lahore to National Accountability Bureau (NAB) on the basis of following irregularities:

1. The tender for construction of NTC regional office building, Lahore was opened on 21-02-2005 and work was awarded to M/s United Engineers as lowest bidder with quoted price of Rs 149.98 million. The project consultant conducted the initial evaluation of the bids and found arithmetical errors which were corrected by him or by contractor and after doubtful corrections, the bid amount was raised to Rs 162.721 million. Instead of turning down the bids due to alteration, the bidder was invited and after negotiation the work was awarded for Rs 153.771 million.
2. After award of work, the contractor submitted the insurance guarantee of Pakistan General Insurance Company against civil works instead of Bank Guarantee and same was accepted by NTC officers as well as consultant.
3. The retention money deducted from running payments to secure defect liabilities as per contract clauses was released by NTC official / consultant.
4. The contractor had executed the sub-standard material and low quality work as confirmed by M/s NESPAK.

5. The contractor had submitted unjustified / fake payments against HVAC ducting, piping and insulation etc and the same was paid without proper verification of quantities.

The matter was reported to management in September, 2016. It was replied that status / progress on the case would be intimated to Audit in due course of time. The reply was not acceptable as NTC own officials were involved in this case. Further, the detail of losses in term of monetary value was not determined by the NTC management and communicated to audit.

DAC in its meeting held on 26th & 27th December, 2016 directed the management to pursue the case with NAB for early recovery from the contractor and fate of the case may be shared with Audit. No further progress was intimated till finalization of this Report.

Audit recommends that the DAC directives may be implemented in letter and spirit.

(DP No.27)

4.4 Irregularities and Non-Compliance

4.4.1 Irregular expenditure on procurements -Rs 71.337 million

According to PPRA Rule 40 "Limitation on negotiations" Save as otherwise provided there shall be no negotiations with the bidder having submitted the lowest evaluated bid or with any other bidder.

NTC management paid an amount of Rs 71,337,075 for procurement of UG Cables and Laptops & Printers during the year 2015-16. The management of NTC telephonically approached the lowest bidders and negotiated with them for discount after declaring lowest. The vendors offered discount and the management accepted it.

The matter was reported to management in September, 2016. It was replied that NTC management had not approached the lowest bidders for discount rather the lowest bidders had given voluntary discount at the time of placement of order which could not be treated as negotiations. The reply was evasive as the management had itself negotiated discount with vendors in contravention to the above rule and Frequently Asked Questions (FAQs) 6 & 7 at PPRA website.

DAC in its meeting held on 26th & 27th December, 2016 directed the management to constitute a fact finding inquiry committee at MoIT level to probe the matter within one month under intimation to audit. No further progress was intimated till finalization of this Report.

Audit recommends that the matter may be investigated and responsibility be fixed against those at fault under intimation to audit.

(DP No.25)

4.4.2 Un-authorized expenditure on account of payment to State Life Insurance Corporation - Rs 10.042 million

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

NTC Management incurred an expenditure of Rs 10,042,563 on account of payment of premium to State Life Insurance Corporation of Pakistan for provision of life insurance to NTC employees during 2015-16. The insurance policy was neither approved in Accounting Procedure of NTC nor from the competent authority.

The matter was reported to PAO and management in October, 2016. It was replied that Group Insurance scheme for all regular NTC Employees was adopted after approval from NTC Management Board from State Life Insurance Corporation which is a Government Organization. The reply was not acceptable as the policy was neither approved in Accounting Procedure of NTC nor from the competent authority.

DAC in its meeting held on 26th & 27th December, 2016 directed the management to get the state life policy approved from the Finance Division. No further progress was intimated till finalization of this Report.

Audit recommends that the policy may be got approved from the Finance Division or practice be stopped under intimation to audit.

(DP No.21)

4.4.3 Non-deduction of stamp duty on procurements - Rs 1.388 million

Sl No. 22-A(b) of Schedule-I of the Stamp Act, 1899 requires that any instrument of the nature of memorandum of agreement made or entered into by a contractor with Government, Corporation, Local Body, Local Authority, agency or organization set up or controlled by the Federal or the Provincial Government to procure stores and material, twenty five paisas for every one hundred rupees or part thereof of the amount of contract would be charged as stamp duty.

NTC management entered into contracts with different suppliers / contractors for purchase of stores of Rs 555,075,986 during 2015-16 but stamp duty of Rs 1,387,690 was not imposed on the stores procured which resulted into loss to the exchequer.

The matter was reported to PAO and management in October, 2016. It was replied that the case had been forwarded to the MoIT for obtaining clarification from the Ministry of Law & Justice. The clarification received would be provided to Audit.

DAC in its meeting held on 26th & 27th December, 2016 directed the management to pursue the case for clarification from the Ministry of Law & Justice within one month under intimation to audit. No further progress was intimated till finalization of this Report.

Audit recommends that the recovery may be made from the contractor and get it verified from audit.

(DP No.34)

4.5 Internal Control Weaknesses

4.5.1 Irregular refund of liquidated damages - Rs 4.441 million

According to clause 7 of Purchase Order, M/s Huawei shall pay to NTC Headquarters Islamabad as Liquidated Damages a sum equivalent to 0.5% per week, maximum to 10 % of the delayed portion of purchase order.

NTC management awarded the work for Supply, Installation, Testing and Commissioning of Multi Services Access Networks (MSANs) to M/s Huawei. The contractor delayed the works and NTC retained the 10% amount as LD charges against five contracts. The Project Directors of the Regions formulated committees to assess the delay and forwarded their recommendations to the Headquarter (H/Q) to decide the cases on merit but the management of NTC reduced the number of days of delay by favouring the contractor. Finally, NTC refunded an amount of Rs 4,441,425 to M/S Huawei during 2015-16.

The matter was reported to PAO and management in October, 2016. It was replied that the committees at regional level were constituted to analyze the delay on the part of contractor, NTC or third party. The respective Project Directors were heading the committees. On the basis of their recommendation, the Chairman NTC decided the delay on the part of contractor based on ground conditions. The reply was misleading as the findings of the Project Directors who actually supervised and monitored the works were ignored. The committee constituted at H/Q level reduced the number of days for delay on the part of vendor and refunded the Liquidated Charges (LD) which was not justified.

DAC in its meeting held on 26th & 27th December, 2016 directed the management to get the documents re-verified from Audit as per management reply. Further, disciplinary action may be initiated against the persons who recommended wrong retention on account of LD or made wrong refund of LD. No further progress was intimated till finalization of this Report.

Audit recommends that the recovery of refunded LD charges may be made and get it verified from Audit.

(DP No.28)

4.5.2 Illegal possession of NTC land and quarter –Rs 3.838 million

According to Article 24 of PT&T Initial Account Code, Vol-I and Serial No. 7 of Appendix-2 to GFR Vol-I, loss and fraud cases are required to be reported to audit office immediately on occurrence. Further, Para 15(2) of Accommodation Rules 2002 stipulates that an allottee, on his retirement or expiry of contract period shall be entitled to retain the accommodation under his occupation for a period not exceeding six month, on payment of normal rent and this facility will be available to FGS only once.

NTC land measuring one kanal and one quarter was illegally occupied by a private person and ex-employee of NTC. The detail is as under:

Sr No	DP No	Office	Description	Amount	Remarks
1	05-2017	Director Dev NTC Lahore	One Kanal Plot at Narowal	2,900,000	Illegal occupation by a private person
2	17-2017	NTC H/Qtr Islamabad	Rent against one Quarter at T&T Colony Gizri Karachi	938,415	Illegal occupation by Ex-Assistant Engineer and non payment of quarter rent
Total				**3,838,415**	

The matter was reported to PAO and management in September/October, 2016. It was replied that the cases were being pursued vigorously in the Court of Law.

DAC in its meeting held on 26th & 27th December, 2016 directed the management to i) pursue the court case under intimation to audit ii) illegal possession of the quarter be got vacated immediately and recovery be made from the pension of retired employee. No further progress was intimated till finalization of this Report.

Audit recommends that the DAC directives may be implemented in letter and spirit. Further, necessary steps may be taken to safeguard NTC properties.

(DP No.05 & 17)

4.5.3 Loss due to non-renting out of Coaxial Cable Huts – Rs 1.548 million

According to Rule-8 of GFR Vol-I, 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 Government treasury. Rule-26 of GFR Vol-I further 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.

NTC management could not utilize (81) Coaxial Cable (CC) repeater huts under the jurisdiction of Director NTC, Multan and Karachi. No effective steps were taken to utilize / rent out these huts to enhance the departmental revenue. Resultantly, an approximate loss of Rs 1,548,000 was sustained by the department during 2015-16. The detail is tabled below:

Sl.No	DP No	Formation	No. of Huts	Amount
01	53-17	Dir NTC, Multan	12	720,000
02	188-17	Dir NTC, Karachi	69	828,000
		TOTAL	**81**	**1,548,000**

The matter was reported to PAO and management in November / December 2016. It was replied that efforts were being made for renting out these CC Huts. The reply was not acceptable as the record did not show concrete efforts for the purpose.

DAC in its meeting held on 26th and 27th December 2016 directed management that vigorous efforts may be made for renting out these huts under intimation to audit. No further progress was reported till finalization of this Report.

Audit recommends that the assessment and renting out all the CC huts be made to utilize them in the best interest of Corporation.

(DP No.53 & 188)

4.5.4 Non-compliance with government rules - current charge appointment

According to Sl.No.122-A(2), the current charge arrangement is a temporary measure pending appointment of a person on regular basis in the prescribed manner. Six month is considered a sufficiently long period for the purpose of filling of posts on regular basis and, there should, normally be no occasion or necessity, for seeking extension of current charge arrangement beyond six months. Extension of current charge beyond six months requires prior consultation with the Finance Division before seeking the orders of the competent appointing authority prescribed in rule 6 of the Civil Servants (Appointment, Promotion & Transfer) Rules, 1973. Further, extension in current charge appointment against B-20 (MG-II) and above beyond 6 months shall be sanctioned by the Prime Minister as stated in Establishment Division O.M No.1/21/76-AR-1 dated 06.04.1987.

NTC management made current charge appointments beyond six months' duration and by ignoring the senior most officers in violation of the above rules. This resulted into irregular appointment and current charge pay. The detail is as under:

S. No	Particulars	Holding charge of Post	Period	Amount (Rs)
01	General Manager (Finance) MG-II	Director General (Finance)	01-07-2015 to 30-06-2016	72,000
02	Director (IT) Group-IX	Director General (Technical)	01-07-2015 to 30-06-2016	72,000
03	Director (Group-IX)	General Manager (North)	01-07-2015 to 30-06-2016	72,000
04	Deputy Director (Finance)	Director (FR&BD) South	01-07-2015 to 30-06-2016	72,000

05	Assistant Director (Civil)	Deputy Director (Civil)	01-07-2015 to 30-06-2016	72,000
06	Assistant Director (Recovery)	Deputy Director (Revenue)	03-07-2015 to 30-06-2016	72,000
TOTAL				**432,000**

The matter was reported to PAO and management in September, 2016. It was replied that the current charge was given as per NTC Service Regulations. However, on the direction of DAC dated 09-10th April 2015, the said rule had been amended in revised draft of NTC Service Regulations and the case had been referred to MoIT for issuance of SRO after necessary vetting from the Ministry of Law. The reply was not acceptable as the grant of current charge beyond six months without approval of the competent authority was not authorized.

DAC in its meeting held on 26th & 27th December, 2016 directed the management to stop this practice immediately and necessary amendment in the rule be got approved in one month. Further the recovery may be effected under intimation to Audit. No further progress was intimated till finalization of this Report.

Audit recommends that the DAC directives may be implemented in true letter and spirit.

(DP No.19)

4.5.5 Non-transfer / mutation of ownership of land of Microwave Stations to NTC

According to NTC Headquarter Letter No. NTC / Bldg-62/A 88/2011 (Multan) dated 14-09-2011, the Chairman NTC instructed to give special emphasis to the sites / land which were not transferred to NTC. Further, NTC Headquarters letter No.NTC/Bldg-62/A-88/11 (Karachi)/421 dated 09.08.2011 requires to update the record of NTC land and building and to settle property disputes with other departments.

Directors NTC, Multan and Karachi did not get transferred the ownership of land / Microwave Stations / CC Huts from PTCL. The cases of transfer of ownership of Land / Microwave Stations / CC Huts were still pending despite the lapse of several years which manifested lack of interest by the management and may cause a heavy loss to the department. The detail is given below:

Sl.No	DP No	Formation	Description / Vested Area
01	55-17	Dir NTC, Multan	63 Kanals 17 Marlas
02	57-17	Dir NTC, Multan	2 Kanals 06 Marlas
03	58-17	Dir NTC, Multan	48 Nos CC Huts
04	186-17	Dir NTC, Karachi	19 MW stations

The matter was reported to PAO and management in November / December 2016. It was replied that efforts were being made to transfer the title of vested properties in the name of NTC. The reply was not acceptable as the properties were not got transferred in the name of NTC despite the lapse of more than 20 years.

DAC in its meeting held on 26th and 27th December 2016 directed management to pursue and expedite the cases to safeguard the interest of the Corporation under intimation to audit. No further progress was reported till finalization of this Report.

Audit recommends that the directives of DAC may be implemented in true letter and spirit.

(DP No. 55, 57, 58 & 186)

4.6 Receivables

4.6.1 Loss due to non-recovery of rent from PTCL – Rs 72.534 million

According to the rental rates prescribed by the Ministry of Housing and Works vide their office memorandum No. F.2(1)2000-Policy dated: 14.04.2008 for hiring office accommodation, as revised from time to time will be charged.

NTC management did not get possession of vested properties from PTCL despite lapse of a period of almost 20 years after re-organization of telecommunication sector in 1996. Neither any effort was made to get vacated these valuable properties nor any claim of rent was raised by the NTC management. Resultantly, a loss of Rs. 72,534,330 on account of rent was sustained by the NTC. The detail is as under:

Sl. No.	Item No.	Name of Station	Covered Area Sq.Ft	Rate per Sq.Ft	Period	Total Rent
1	09	CTO building Multan	5,485	22	01.01.1996 to 30.06.16	29,684,820
2		Carrier Hall Model Town Bahawalpur	766	22	-do-	4,145,592
3		Carrier Hall Rahim yar Khan	1,336	22	-do-	7,230,432
4		Carrier Hall Bahawalnagar	1158.5	22	-do-	6,269,802
5		PTCL Rest House Fort Manroo	3375	22	-do-	18,265,500
6		PTCL Exchange Fort Manroo	1282	22	-do-	6,938,184
					Total	**72,534,330**

The matter was reported to PAO and management in November 2016. It was replied that reconciliation with PTCL against facility hired from NTC, was being carried out by NTC H/Qs on annual basis. The reply was not acceptable as no documentary evidence was provided to audit in support of reply.

DAC in its meeting held on 26th & 27th December, 2016 directed the management that the detailed verification may be got done from audit. No further progress was intimated till finalization of this Report.

Audit recommends that the matter may be investigated at Headquarter level to get vacated the properties from PTCL besides charging and recovery of rent under intimation to audit.

(DP No.52)

4.6.2 Non-recovery of outstanding dues from the subscribers - Rs 43.284 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 74,313,307 from various designated customers on account of working connections, closed connections, Digital Subscriber Line (DSL), Wireless Local Loop (WLL), Casual Telephone Connection (CTC), Primary Rate Interference (PRI) and Un-identified connections during financial year 2015-16. Non-recovery of NTC receipts reflected the ineffective financial management of NTC and weak internal controls for realization of receivables.

The matter was reported to PAO and management in December, 2016. It was replied that an amount Rs 47,637,000 had been recovered from total outstanding amount of Rs.74,313,307. Audit had verified an amount of Rs 31,028,985 and the amount of para was reduced to the tune of Rs 43,284,322. The reply was not justified as the pace of recovery was very slow which needs to be accelerated. The balance amount may be recovered and got verified from Audit.

DAC in its meeting held on 26th & 27th December, 2016 directed the management to recover the balance amount besides getting it verified from audit.

No further progress was intimated till finalization of this Report.

Audit recommends that the outstanding dues may be recovered within one month and got verified from audit.

(DP No.153)

4.6.3 Non-realization on account of pre-deposit works Rs 20.316 million

According to para 10 of pre-deposit policy, upon completion of the work, the concerned Director shall prepare and issue the final capital bill. The client will be required to deposit / settle the bill within two months of the receipt of the Final Capital Cost Bill.

NTC management did not recover the outstanding balances on account of pre-deposit works amounting to Rs 20,315,631 in (3) formations in violation of the above rule during 2015-16. The detail is as under:

Sl.No.	DP No	Name of Formation	Amount
01	06-17	Dir. Dev. NTC, Lahore	1,061,574
02	166-17	Dir. Dev. NTC, Islamabad	14,363,621
03	193-17	Dir. Dev. NTC, Karachi	4,890,436
Total			**20,315,631**

The matter was reported to PAO and management in November / December 2016. It was replied that NTC management was pursuing actively for realization of payment from PAF. The reply was not acceptable as the payments were delayed for more than six months in violation of the rule and were not realized as yet.

DAC in its meeting held on 26th and 27th December 2016 directed the management to recover the amount within three months besides getting it verified from audit. No further progress was reported till finalization of this Report.

Audit recommends that the receivables may be realized at the earliest under intimation to audit.

(DP No.06,166 & 193)

4.6.4 Non-recovery of Provisional Capital Cost (PCC) claims – Rs 18.593 million

According to Rule 28 of GFR Vol-I, it is the duty of the departmental controlling officer to see that all sums due to Government are regularly and promptly assessed, realized and credited to accounts. No amount due to Government should be kept outstanding.

NTC management did not recover an amount of Rs 18,593,317 on account of Pre-deposit works in two projects i.e Optical Fiber Cable (OFC) network between Gulgusht Telephone Exchange and BZ University at Bosan Road, Multan and construction of National Highway N-5 from Jinnah Terminal Flyover to Quaid Abad Flyover, Karachi which were damaged due to Metro Bus Project and construction of Highway. The Divisional Engineers NTC, Multan and Karachi claimed Provisional Capital Cost (PCC) bills amounting to Rs 18,951,077 against damages from concerned authorities which had not yet been recovered. The detail is as under:

Sl.No	DP No	Name of Formation	Amount of PCC bills	Amount Recovered	Outstanding Amount
01	54-17	Dir NTC, Multan	11,219,287	-	11,219,287
02	183-17	Dir NTC, Karachi	7,731,790	357,760	7,374,030
		TOTAL	**18,951,077**	**357,760**	**18,593,317**

The matter was reported to PAO and management in November December 2016. It was replied that PCC bills were forwarded on presumptive basis and no damage was done to NTC Network during execution of referred projects. The reply was not acceptable as it was evident from the record that NTC network was damaged and in case of Karachi, an amount of Rs 357,760 was also recovered from the authorities.

DAC in its meeting held on 26th and 27th December 2016 directed management that a fact finding inquiry may be conducted at NTC Headquarter level and its report be submitted to audit through PAO. No further progress was reported till finalization of this report.

Audit recommends that the directives of DAC may be implemented in true letter and spirit.

(DP No. 54 & 183)

4.6.5 Non-recovery of revenue receipts – Rs 10.248 million

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

NTC management did not recover an amount of Rs 24,586,747 on account of co-location charges, rent of microwave circuits, web hosting and MSDN Intranet from different telecom companies during 2015-16.

The matter was reported to PAO and management in October, 2016. It was replied that a sum of Rs.14,942,218 out of Rs 24,586,747 had been recovered and efforts were under way to recover the balance amount. The reply was not acceptable as an amount of Rs 14,338,347 had been verified by audit leaving a balance of Rs.10,248,400. However, the pace of recovery was very slow which needed to be accelerated.

DAC in its meeting held on 26th & 27th December, 2016 directed the management to recover the remaining outstanding amount at the earliest under intimation to audit. No further progress was intimated till finalization of this Report.

Audit recommends that the balance amount may be recovered and got verified from audit.

(DP No.22)

4.6.6 Non-recovery on account of rent of office building – Rs 8.614 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 in above, as per clause 1 (iv) a surcharge equal to 1.75% per month will be imposed on outstanding amount on each day basis.

NTC management did not recover an amount of Rs 19,596,947 on account of rent of building situated at 6-Race Course Road, Lahore during 2015-16. The detail is as under:

S. No	Floor	Period	Area (sq.ft.)	Rate Rs.	Amount Rs.	Remarks.
1	1st	01.10.2015 to 31.05,2016	9600	162.72	12,496,896	Monthly rent
2	1st	01.06.2016 to 30.06,2016	9600	178.09	1,709,664	Monthly rent
3	1st	01.10.2015 to 30.06.2016	--	1.75% per month	248,614	Penalty / Surcharge (as per new agreement)
4	2nd	01.10.2015 to 30.04.2016	3555	148.75	3,701,644	Monthly rent
5	2nd	01.05.2016 to 30.06.2015	3555	162.73	1,157,010	Monthly rent
6	2nd	01.05.2015 to 30.06,2015	--	1.75% per month	85,026	Penalty / Surcharge (as per new agreement)
Sub-Total:					**19,398,854**	
Penalty recoverable of vacated space of 4045 Sft (Rent was received but penalty is recoverable as detailed in Item No. 05)					**198,093**	Penalty / Surcharge (as per agreement)
Grand Total					**19,596,947**	

The matter was reported to PAO and management in October, 2016. It was replied that an amount of Rs.10,701,560 had been recovered. Balance amount would be recovered in due course of time. However audit had verified an amount of Rs 10,983,396 and the amount of para was reduced to the tune of Rs 8,613,551. The reply was not acceptable as total amount was not recovered till the finalization of this report.

DAC in its meeting held on 26th & 27th December, 2016 directed the management that the remaining amount be recovered and got verified from audit. No further progress was intimated till finalization of this Report.

Audit recommends that balance amount of rent as well as penalty may be recovered from the tenant and got verified from Audit.

(DP No.07)

4.6.7 Non-recovery of rent from M/s Catcom – Rs 2.886 million

According to Rule-8 of GFR Vol-I, 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 Government treasury.

NTC management did not recover the rent of three rooms amounting to Rs 2,886,000 occupied by M/s Catcom since the year 2002. No efforts were made to get these rooms vacated.

The matter was reported to PAO and management in October, 2016. It was replied that initially M/s Catcom was providing Telecom Services in collaboration with NTC and office / equipment space was provided on business partnership basis. However, NTC was in litigation with M/s Catcom on business matter and as soon as the case was decided, rooms would be got vacated.

DAC in its meeting held on 26th & 27th December, 2016 directed the management to get the rooms vacated from Catcom if there was no legal bar. The recovery of rent may be effected and got verified from audit. No further progress was intimated till finalization of this Report.

Audit recommends that the directives of DAC may be implemented in true letter and spirit.

(DP No.192)

CHAPTER-5

PAKISTAN TELECOMMUNICATION AUTHORITY

5 PAKISTAN TELECOMMUNICATION AUTHORITY

5.1 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 Ministry of Information Technology and Telecom Division (MoIT&T). 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.

5.2 Comments on Budget and Accounts

1. As per note 23.1 related to other income, PTA charged mark up on Initial Spectrum Fee (ISF) for Next Generation Mobile Service (NGMS) @3.70% to 3.74% per annum from operators who opted to pay ISF in instalments. (Due to receiving money in instalments instead of lump sum). However, as per note 20.2, PTA earned 4.5% to 5% mark up on bank deposits on local currency accounts. This resulted into less return on assets.

2. As per note 13.8 of the accounts, Ministry of Finance (MoF) directed PTA in 2009 to contribute 3% of PTA's receipts per annum to the Competition Commission of Pakistan (CCP) pursuant to the Competition Commission of Pakistan (Collection of fee & charges) Rules, 2009. PTA has not paid such contribution. This resulted into significant understatement of liabilities and overstatement of profit. The private auditors also included this point as matter of emphasis in their Report.

3. The statement of changes in FCF (Note 4.3) for financial year ended June 30, 2016 showed payment of Rs 6.094 billion on account of Federal Excise Duty (FED). This amount relates to license fee received from cellular mobile operators and FBR forcefully deducted FED on this amount. This resulted in overcharging of expenditure in PTA income statement.

4. As per note 18 to Financial Statements ending June 30, 2016 fee receivable for the year was Rs 17.648 billion whereas an amount of Rs 17.511 billion was charged as provision of doubtful receivables in current year which is 99% of the receivables. This resulted into understatement of assets for the reported year and non-deposit to FCF to the extent in previous year.

5. As per Balance Sheet as at 30th June 2016, long term payable to AJK & GB Council is Rs 189.549 million which was (319.801 million in 2015). As per note 6 of the accounts the movement of long term payable was not given.

6. From the current year PTA provides post-retirement medical benefits to all eligible employees who retired after a minimum period of twelve years. As per note 8.2 PTA booked post-retirement medical benefits as deferred liability amounting Rs 179.541 million. These liabilities were booked without the approval of the Finance Division and amount amortized during the year resulted into overstatement of expenditure.

7. As per note 10.2 of Financial Statements ending on 30th June 2016 relating to movement in payable to GB Council an amount of Rs 191.365 million was payable to GB Council as short term liability but during 2015-16 no amount was paid to GB Council in this regard which increase the payable to GB Council during 2015-16. The reason for non-payment may be provided to audit.

AUDIT PARAS

5.3 Irregularity & non-compliance

5.3.1 Irregular expenditure on engagement of consultants – Rs 19.259 million

According to Sl No. 142 of Estacode, guidelines for appointment of consultants are issued to ensure that the best persons are transparently and competitively appointed in a cost-effective manner, only when a consciously and formally identified need for consultants exists. A consultancy would, therefore, always be assignment specific and time bound and should be preferred only when it is considered value effective to hire services of a consultant compared to developing in-house expertise.

PTA hired twelve consultants for Law and Finance Wings despite having comprehensive Law and Finance Departments. An expenditure of Rs 19,258,684 incurred on account of payment to these consultants was irregular as the consultants were working like regular employees.

The matter was reported to PAO and management in December 2016. It was replied that the hiring of consultants had been carried out keeping in view the requirements of PTA and evolving nature of work of PTA. They had not only provided assistance to the Authority on different aspects but also gave insight and assistance to different departments in various assignments. The reply was not acceptable as consultants were not appointed for specific job and time period. Moreover, a large number of experts were already available for law and accounting matters.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to get the requirement, nature of consultancy and time frame verified from Audit. No further progress was intimated till finalization of this report.

Audit recommends that the record relating to requirement of consultants as per guidelines for appointment of consultants may be got verified from Audit.

(DP No.97)

5.3.2 **Unauthorized payment on account of gratuity - Rs 12.200 million**

According to para (c) of Finance Division O.M No. OB-2/12/63-Imp (I), dated 18.8-1966, No. F. 8 (14) – R6/68, dated 25.11.1968 & F. 3 (I) (Reg-6) dated 20.11.1984, if a Government servant employed in a substantive and permanent capacity in pensionable service retires or is selected for discharge owing to the abolition of his permanent post after completing qualifying service of 5 years but less than 10 years, he may be granted a gratuity not exceeding one month emoluments for each completed year of qualifying service. The term 'Emoluments' means the emoluments which a Government servant was receiving immediately before his retirement and includes Pay, Personal pay, Technical Pay, Special pay of all types and nature, Dearness allowance, Increments accrued during LPR, Indexed pay and Senior Post Allowance.

PTA made excess payment of Rs 12,199,521 on account of gratuity to its ex-officers / officials on the gross pay during 2015-16. The gratuity was calculated on last month gross pay instead of basic pay.

The matter was reported to PAO and management in December 2016. It was replied that the empowerment of PTA as per Act had also been endorsed by the Ministry of Law and Justice in their opinion that "in matter relating to section 10(3) of the Act, PTA was not only self-competent but legally allowed/ empowered to issue regulations for appointment, promotion, termination and other terms and conditions of employment of its employees without any prior or Ex-post facto approval of the Federal Government, Establishment Division or Finance Division, under the provision of the Act". The reply was not acceptable as PTA rules / regulations were not approved from the Establishment / Finance Division.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to send the detailed reference containing view points of Audit and PTA to the Finance Division for clarification. No further progress was intimated till finalization of this report.

Audit recommends that the expenditure may be got regularized from the Finance Division under intimation to Audit.

(DP No.134)

5.3.3 Irregular payment of Monetization allowance - Rs 11.880 million

According to Cabinet Division OM No. 6/7/2011-CPC dated 12th December, 2011 regarding Policy for Monetization, monetization of transport facility is allowed to Civil Servants in BPS-20 to BPS-22 w.e.f 01.01.2012 subject to fulfillment of the parameters of the policy. Further, the approved pay package for PTA vide Finance Division vide No.F.4 (15) R-4/2004 (Pt) dated 7th of September, 2009 conveyance allowance will be admissible @ 15% of the mean of the pay scales of the employees of PTA / FAB up to the level of officers in pay scales equivalent to BPS-19.

PTA incurred an expenditure of Rs 11,880,000 on account of payment of monetization allowance to the level of officers in pay scales equivalent to BPS-19. The officers equivalent to BPS -19 were not entitled for the facility of monetization allowance.

The matter was reported to PAO and management in December 2016. It was replied that the empowerment of PTA as per Act had also been endorsed by the Ministry of Law and Justice in their opinion that "in matter relating to section 10(3) of the Act, PTA was not only self-competent but legally allowed / empowered to issue regulations for appointment, promotion, termination and other terms and conditions of employment of its employees without any prior or ex-post facto approval of the Federal Government, Establishment Division or Finance Division, under the provision of the Act". The reply was not acceptable as PTA rules/ regulations were not approved from the Establishment / Finance Division.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to send the detailed reference containing view points of Audit and PTA to the Finance Division for clarification. No further progress was intimated till finalization of this report.

Audit recommends that the expenditure may be got regularized from the Finance Division under intimation to Audit.

(DP No.110)

5.3.4 Excess payment on account of conveyance allowance at enhanced rates - Rs 11.791 million

According to the approved pay package circulated by the Finance Division vide No.F.4 (15) R-4/2004 (Pt) dated 7th of September, 2009 conveyance allowance will be admissible @ 15% of the mean of the pay scales of the employees of PTA / FAB up to the level of officers in pay scales equivalent to BPS-19. Further, As per Para 9 (d) of the system of Financial control and Budgeting issued vide Finance Division vide letter No. F-3 (2) Exp-III/2006 dated 13.09.2006 required the approval of the Finance Division before issuing any orders that may affect the finance of the federation.

PTA management enhanced the rate of conveyance allowance from 15% to 30% of the mean of pay scales and made overpayment of Rs 11,791,056 to PTA's Officers / Officials without approval of the Finance Division during 2015-16.

The matter was reported to PAO and management in December 2016. It was replied that the case for concurrence of 'Standing Committee of Finance on Pay and Allowances' had already been sent vide letter No.6-2/2013(HR)/PTA dated 18th March, 2013 and subsequent reminder dated 28th October, 2014 to the Finance Division after approval of the Authority. The reply was not acceptable as the payment of conveyance allowance at enhanced rates was not got approved from the Finance Division.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to send the detailed reference containing view points of Audit and PTA to the Finance Division for clarification. No further progress was intimated till finalization of this report.

Audit recommends that expenditure on account of conveyance allowance at enhanced rates may be got regularized from the Finance Division.

(DP No.101)

5.3.5 Unauthorized payment of gratuity in addition to CPF - Rs 9.423 million

According to Finance Division (Regulation Wing) vide its OM No. F.10 (1)R-7/2009-412 dated 21st January, 2015 decided that policy regarding non-payment of gratuity in addition to Contributory Provident Fund issued vide O.M. dated 16.10.1984 will remain intact. As per Finance Division's policy dated 16.10.1984, the payment of gratuity was disallowed in addition to CPF contribution.

PTA incurred an expenditure of Rs 9,423,427 on account of payment of gratuity to officers / officials during 2015-16 in addition to CPF Account. PTA had also maintained a Contributory Provident Fund (CPF) Account bearing No. NIDA 18-4 in National Bank of Pakistan. The detail is tabled below:

Sl No	Name of Officers	Designation	Length of service	Vr No & Date	Gross Pay	Gratuity paid
1	Sardar Mehmood Gul	Director	10 Years	07/0102 13.7.15	155,231	1,212,880
2	Tassawar Hussain	Ex-Driver	08 Years	08/0191 28.8.15	40,060	252,800
3	Shahid Nadeem	Director General	03 Years	09/0076 16.9.15	340,055	737,595
4	CH. Zahid Nawaz	Assistant	07 Years	09/0018 18.09.15	32,451	171,654
5	Fawad Nawaz Kiani	Director	03 Years	10/0200 26.10.15	177,256	401,352
6	Dr. Muhammad Ramzan	Director	17 Years	10/0221 29.10.15	293,759	3,500,572
7	Faraz Khan Jadoon	Assistant Director	02 Years	03/0155 18.03.16	116,529	180,154
8	Ghulam Mustafa	Admin Officer	35 Years	03/0155 18.03.16	112,827	2,966,420
Total:						**9,423,427**

The matter was reported to PAO and management in December 2016. It was replied that the empowerment of PTA as per Act had also been endorsed by the Ministry of Law and Justice in their opinion that "in matter relating to section 10(3) of the Act, PTA was not only self-competent but legally allowed / empowered to issue regulations for appointment, promotion, termination and other terms and conditions of employment of its employees without any prior or post fact approval of the Federal Government, Establishment Division or Finance Division, under the provision of the Act". Payment of Rs.9.423 million as gratuity to concerned employees was made in line with Regulation 102 of PTA's Employees Service Regulations 2008. The reply was not acceptable as PTA rules / regulations were not approved from the Establishment / Finance Division.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to send the detailed reference containing view points of Audit and PTA to the Finance Division for clarification. No further progress was intimated till finalization of this report.

Audit recommends that expenditure on account of gratuity may be got regularized from the Finance Division.

(DP No.102)

5.3.6 Unauthorized payment on account of Adhoc Relief Allowance 2015 - Rs 9.058 million

According to Finance Division (Regulation Wing) letter No.F.4(3)R-4/2011 dated 19th August, 2015, Autonomous / Semi-Autonomous Bodies and Corporations etc will forward the cases of only executive / supervisory staff with the recommendations of their respective Boards for concurrence of Finance Division for grant of Adhoc Relief Allowance – 2015 @ 7.5% of basic pay.

PTA management paid an amount of Rs 9,058,310 during 2015-16 on account of Adhoc Relief Allowance 2015@ 7.5% of basic pay to its executive / supervisory staff without concurrence of Standing Committee of the Finance Division.

The matter was reported to PAO and management in December 2016. It was replied that the empowerment of PTA as per Act had also been endorsed by the Ministry of Law and Justice in their opinion that "in matter relating to section 10(3) of the Act, PTA is not only self-competent but legally allowed / empowered to issue regulations for appointment, promotion, termination and other terms and conditions of employment of its employees without any prior or post fact approval of the Federal Government, Establishment Division or Finance Division, under the provision of the Act". Further, Regulation 108 of PESR 2008 provides that "the pay scales shall be reviewed by the Authority from time to time. The Chairman may also grant any additional allowances / subsidies in addition to regular allowances already admissible from time to time". The reply was not acceptable as the PTA Authority was fully empowered and had autonomy in grant and administration of licensing matters not in financial matters as per Act. Further PTA employees service regulation were not approved from the Establishment / Finance Division.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to send the detailed reference containing view points of Audit and PTA to the Finance Division for clarification. No further progress was intimated till finalization of this report.

Audit recommends that expenditure on account of Adhoc Relief Allowance 2015 may be got regularized from the Finance Division.

(DP No.99)

5.3.7 Un-authorized hiring of consultants for auction of 3G Spectrum and expected loss - Rs 7.863 million

According to Rule 13 (1) of PPRs, the procuring agency may decide the response time for receipt of bids or proposals (including proposals for pre-qualification) from the date of publication of an advertisement or notice, keeping in view the individual procurement's complexity, availability and urgency. However, under no circumstances the response time shall be less than fifteen days for national competitive bidding and thirty days for international competitive bidding from the date of publication of advertisement or notice.

PTA floated tender notice in national daily newspapers for invitation of applications for the eligible / potential candidates for the positions i) Spectrum Valuation Advisor ii) Spectrum Auction Design Advisor iii) Auctioneer / Auctions Software Advisor iv) Spectrum Regularity Policy Advisor. The response time for submission of application was 07 days from the date of advertisement. A committee conducted the telephonic interviews of the candidates against their positions and recommended following individuals for selection to the position as mentioned against each:

Sl No	Name of Individual	Selected As	Lump sum remuneration (US$)
1	Mr. Rob Nicholls	Spectrum Valuation Advisor & Spectrum Regulatory Policy Advisor	195,000
2	Mr. Dennis Ward	Spectrum Auction Design Advisor	180,000
3	Mr. Martin Sims	Auctioneer / Auctions Software Advisor	170,000

The Chairman PTA approved the recommendations of the committee and appointed the above as consultants. PTA issued cheques of 15% advance payment amounting to Rs 7,862,525 to the consultants without the concurrence of Member Finance and Member Technical. Moreover, PTA has engaged a lawyer for the said cases for Rs 600,000 and advance payment of Rs 300,000 was made to him.

The NAB vide its letter dated 19.12.2012 raised comments on hiring of consultants i.e. the hiring of consultants for 3G / 4G Spectrum auction which was found in violation of PPRA Procurement of Consultancy Services Regulation 2010. Both the members of PTA agreed with NAB and recommended to stop all proceedings. Therefore, PTA discontinued the execution of the contract. The consultants filed the appeal against the cancellation of the contract in Lahore High Court.

The matter was reported to PAO and management in December 2016. It was replied that the matter was subjudice in the court of Law. The reply was not acceptable as the appointment of consultants was found in violation of PPRs. The contracts were discontinued after the action of NAB authorities.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to pursue the case under intimation to audit. No further progress was intimated till finalization of this report.

Audit recommends that vigorous efforts be made to get the court case decided at the earliest.

(DP No.115)

5.3.8 Unauthorized revision of pay scales and payment to PTA employees - Rs 7.738 million

Finance Division (Regulation Wing) had approved three pay packages of PTA in the year 2007, 2008 and last in 2012 which were applicable till any new revision by the Finance Division.

PTA management revised its pay scales w.e.f 01.07.2015 without the approval of the Finance Division and paid an amount of Rs 7,738,285 on account of pay to the officers during 2015-16.

The matter was reported to PAO and management in December 2016. It was replied that under section 10(3) of Pakistan Telecommunication (Re-organization) Act, 2006, PTA was not only self-competent but legally allowed / empowered to issue regulations for appointment, promotion, termination and other terms and conditions of employment of its employees without any prior or post facto approval of the Federal Government, Establishment Division or Finance Division. The reply was not acceptable as the PTA Authority was fully empowered and had absolute autonomy to the extent of grant and administration of licensing matters not in financial matters as per Act and as decided by the Honourable Islamabad High Court in its order dated 11.11.2016.

DAC in its meeting held on 26^{th} & 27^{th} December, 2016, directed the management to send the detailed reference containing view points of Audit and PTA to the Finance Division for clarification. No further progress was intimated till finalization of this report.

Audit recommends that revised pay scales 2015 may be got approved from the Finance Division.

(DP No.105)

5.3.9 Unauthorized payment on account of legal fee - Rs 3.983 million

According to the Ministry of Law Justice & Human Rights letter No F-20/1/87/L.A dated16.03.2007," Where the fee paid to a counsel is more than Rs 100,000 approval of the Ministry of Law, Justice and Human Rights will invariably be obtained by the organization before engaging the counsel.

The failure to do so will render the engagement null and void and the fee involved will not be paid to the counsel.

PTA hired services of different legal counsels where the fee paid to a counsel was more than Rs 100,000. The PTA made payment of Rs 3,982,500 to the legal counsels during 2015-16 on account of legal fee without the approval of the Ministry of Law & Justice.

The matter was reported to PAO and management in December 2016. It was replied that that the Authority, under section 10 of the Act was empowered to regulate and manage its internal organization, appoint advisory bodies, consultants and advisors in relations to its functions and powers. In exercise of its powers under the Act and based upon the relevant qualification(s) and experience, names of legal counsels / advocates are placed / enlisted on PTA panel and court cases were assigned to advocates as terms and conditions approved by the Authority on case to case basis. The reply was not acceptable as legal counsels were hired on fee exceeding Rs 100,000 without the approval of the Ministry of Law, Justice & Human Rights.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to get clarification from Law and Justice Division under intimation to audit. No further progress was intimated till finalization of this report.

Audit recommends that necessary clarification from the Ministry of Law, Justice & Human Rights may be obtained and the expenditure be got regularized from competent authority.

(DP No.107)

5.3.10 Un-authorized enhancement in frozen / capped allowances

According to sl No. xi) of Finance Division OM No. F.4(15)R-4/2004 dated 16th July, 2012 pay package of PTA, all the special pays, special allowances or the allowances admissible as percentage of pay (excluding those which are capped by fixing maximum limit) including house rent allowance shall stand frozen at the level of its admissibility as on 30.06.11.

Finance Division had frozen all the special pays, special allowances or the allowances admissible as percentage of pay at the level of its admissibility as on 30.06.2011 but PTA management enhanced the utility allowance, medical allowance and conveyance allowance w.e.f 01-07-2011 on pay scales 2011 without the approval of the Finance Division. The PTA made the payment of above allowances on mean of the Pay Scales 2011 instead of mean of pay scales of 2008.

The matter was reported to PAO and management in December 2016. It was replied that under section 10(3) of Pakistan Telecommunication (Re-organization) Act, 2006, PTA was not only self-competent but legally allowed / empowered to issue regulations for appointment, promotion, termination and other terms and conditions of employment of its employees without any prior or post facto approval of the Federal Government, Establishment Division or Finance Division. The reply was not acceptable as the PTA Authority was fully empowered and had absolute autonomy to the extent of grant and administration of licensing matters not in financial matters as per Act and as decided by the Honourable Islamabad High Court in its order dated 11.11.2016.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to send the detailed reference containing view points of Audit and PTA to the Finance Division for clarification. No further progress was intimated till finalization of this report.

Audit recommends that the expenditure be got approved from the Finance Division.

(DP No.133)

5.3.11 Unjustified payment of general purpose loan to officers / officials of PTA - Rs 3.886 million

According to rule 4 (vi) of System of Financial Control & Budgeting 2006, dated 13.09.2006, no authority exercises the powers of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage and that public moneys are not utilized for the benefit of a particular person or section of the community unless the amount of expenditure involved is insignificant, or the claim for the amount can be enforced in a court of law, or the expenditure is in pursuance of a recognized policy or custom.

PTA management incurred an expenditure of Rs 3,886,420 on account of payment of general purpose loan to officers / officials without the approval from competent forum during 2015-16. The General Purpose Loan was paid on 30.06.16 in order to exhaust the funds and to avoid the surrender to Federal Consolidated Fund.

The matter was reported to PAO and management in December 2016. It was replied that General Purpose Loan was granted to PTA employees in accordance with Policy for Grant of Loan and Advance to PTA Employees, made under regulation 107 of PTA Employees Service Regulations 2008 (PESR-2008).

The reply was not acceptable as PTA Authority was fully empowered and had autonomy in grant and administration of licensing matters not in financial matters as per Act. Further, PTA Employees Service Regulations 2008 were not got approved from the Finance Division.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to send the detailed reference containing view points of Audit and PTA to the Finance Division for clarification. No further progress was intimated till finalization of this report.

Audit recommends that the expenditure may be got approved from the Finance Division.

(DP No.112)

5.4 Internal Control Weaknesses

5.4.1 Unauthorized Expenditure over and above budget Estimates on account of payment of Income Tax-Rs 5,429.778 million

According to Para 2.2 of Procedure for Sanctioning, Drawing & Disbursing of Funds of PTA, the controlling officer must see that not only the total expenditure is kept within the allocated budget but also that funds allotted in the budget are expended in public interest and upon objects for which money was provided.

PTA prepared estimate for payment of income tax of Rs 4,771,128,554 but the actual amount of income tax paid to the Income Tax Authorities was Rs 10,200,906,828. Resultantly, an amount of Rs 5,429,778,274 was paid over and above the budget allotment.

The matter was reported to PAO and management in December 2016. It was replied that the forceful withdrawal by FBR on 29th June, 2016 was related with Federal Excise Duty (FED). As PTA was not doing any service or business which may attract FED, therefore, FED cannot be taken as a regular expenditure of PTA, accordingly, the same could not be kept in budget. Keeping that amount in budget of PTA would tantamount to accept the charge of FED by PTA. The reply was not acceptable as excess expenditure was not regularized by obtaining additional funds from the Government or re-appropriation from the other heads before the close of the financial year.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to pursue the case with FBR for recovery besides getting it verified from audit. No further progress was intimated till finalization of this report.

Audit recommends that the case may be pursued with FBR authorities for stoppage of forceful deduction of tax and early recovery of the said amount besides getting it verified from audit.

(DP No.130)

5.4.2 Non-approval of PTA Rules / Regulations

According to article 99 of (2) & (3) of The Constitution of the Islamic Republic of Pakistan, 1973, the Federal Government shall by rules specify the manner in which orders and other instruments made and executed (in the name of the President) shall be authenticated, and the validity of any order or instrument so authenticated shall not be questioned in any Court on the ground that it was not made or executed by President. The Federal Government shall also make rules for the allocation and transaction of its business. As per Sl No 53 of Schedule-II of Rule of Business 1973, administrative control of the Pakistan Telecommunication Authority (PTA) and Frequency Allocation Board (FAB) is under Cabinet Division. Moreover, while discussing the Audit Para 1.3 of 2004-05 of PTA, the Sub-Committee of PAC in its meeting held on 21st to 23rd May, 2014 directed Chairman, PTA to frame hence-forth PTA Rules and Regulations duly approved from Government within three months. Following observations were noticed:

i. Establishment Division approved the PTA Service Regulations 2000 and advised that concurrence of the Finance Division, on the chapters which relate to financial terms and condition may also be obtained. PTA neither notified the Service Regulations 2000 nor obtained the concurrence of the Finance Division.

ii. PTA prepared the Service Regulations 2004, 2007 and 2008 but did not obtain the approval of the Establishment Division and Finance Division.

iii. PTA prepared the Service Regulations again and again and made several amendments in these regulations without approval of the Establishment Division and Finance Division.

iv. PTA prepared different policies and implemented in PTA i.e Employee Benefits Policies, Work Place Guidelines, E-Polices etc. But neither regulations for these policies were prepared nor got approved from competent authority.

The matter was reported to PAO and management in December 2016. It was replied that the empowerment of PTA as per Act had also been endorsed by the Ministry of Law, Justice and Human Rights in their opinion that "in matter relating to section 10(3) of the Act, PTA was not only self-competent but legally allowed / empowered to issue regulations for appointment, promotion, termination and other terms and conditions of employment of its employees without any prior or post fact approval of the Federal Government, Establishment Division or Finance Division, under the provision of the Act". The reply was not acceptable as PTA Authority was fully empowered and had autonomy in grant and administration of licensing matters not in financial matters as per Act as well as per decision of the Honorable Islamabad High Court in its judgment dated 11th November, 2016

DAC in its meeting held on 26th & 27th December, 2016, directed the management to send the detailed reference containing view points of Audit and PTA to the Finance Division for clarification. No further progress was intimated till finalization of this report.

Audit recommends that PTA rules / regulations may be got approved from the Establishment / Finance Division.

(DP No.151)

5.5 Receivables

5.5.1 Less realization of revenue- Rs 748.219 million

According to Section 4.1.2 of the license, the licensee shall pay the annual regulatory dues / fees, to the Authority calculated on the basis of 0.5% Annual License Fee, 0.5% Research & Development Fund and 1.5% & 2% Universal Service Fund (or such lesser amount as the Authority may, by Regulations, determine) of the licensee's annual gross revenue from licensed services for the most recently completed financial year of the licensee minus inter-operated payments and related PTA / FAB mandated payments.

PTA management issued demand notices to the operators by deducting Federal Excise Duty / Sales Tax from gross revenue for the calculation of annual regulatory dues in violation of the above cited condition of license. This resulted into less realization of revenue of Rs 748,218,724. Summary of less realization is as under:

Sl. No.	Name of Operator	Period	Amount less realized (Rs)
01	M/s Mobilink Pakistan Ltd	December 31, 2015	396,250,038
02	M/s Mobilink Pakistan Ltd (AJK & GB)	December 31, 2015	2,343,636
03	M/s Telenor (Pvt) Ltd (AJK & GB)	December 31, 2015	14,517,150
04	M/s Telenor (Pvt) Ltd (Pakistan)	December 31, 2015	335,107,900
TOTAL			**748,218,724**

The matter was reported to PAO and management in December 2016. It was replied that Sales Tax / Federal Excise Duty was the revenue of FBR and not the revenue of Cellular Mobile Operators due to which the Annual Regulatory dues of PTA were not leviable on sales tax / federal excise duties which were deposited to FBR by CMOs. If PTA charges ARDs on sales tax / FED this would mean that PTA (Govt. Entity) was charging its ARDs on the amounts which had been paid to FBR. The reply was not acceptable as it was violation of the term and conditions of license.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to pend the para for decision by PAC.

Audit recommends that the matter may be investigated, less realization of revenue be recovered and got verified from Audit.

(DP No.128)

5.5.2 Non-Recovery of outstanding dues on account of Annual Spectrum Fee-Rs 96.818 million

According to clause 1.3.2 of appendex-2 of Local Loop License issued under section 21 of the Pakistan Telecommunication (Re-organization) Act, 1996, in addition to any other fees payable by the Licensee under the License, the Licensee shall pay annual fee to the authority.

PTA management did not recover an amount of Rs 96,817,885 on account of Annual Spectrum Fee (ASF) from the operators during 2015-16.

The matter was reported to PAO and management in December 2016. It was replied that efforts were being made to recover the amount.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to pursue the cases for early recovery besides getting it verified from Audit. No further progress was intimated till finalization of this report.

Audit recommends that vigorous efforts may be made for early realization of the outstanding amount besides getting it verified from audit.

(DP No.138)

5.5.3 Outstanding dues against recovery petitions – Rs 52.706 million

According to Section 30 of Pakistan Telecommunication (Reorganization) Act, 1996, all fees, fines or other amounts due or payable to the Authority may be recovered as arrears of land revenue.

PTA management failed to recover an amount of Rs 52,706,014 against (13) outstanding recovery petitions. There were further (163) recovery petitions pending in different district collectors since 2006. No positive efforts were made to settle long outstanding recovery petitions.

The matter was reported to PAO and management in December 2016. It was replied that recovery petitions were pending before different District Collectors and were being pursued by RA Division as well as concerned Zonal offices to recover the dues for national exchequer. The reply was not acceptable as no effective steps were taken to settle the recovery petitions.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to pursue the cases of recovery petitions besides getting it verified from audit. No further progress was intimated till finalization of this report.

Audit recommends that strenuous efforts may be made to recover the outstanding dues against the recovery petitions under intimation to audit.

(DP No.152)

5.5.4 Non-recovery of outstanding dues on account of APC for USF - Rs 753.774 million

As per Section 10 Sub Section (2) of Access Promotion Regulation, 2005, an LDI licensee shall made 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.

PTA management did not recover an amount of Rs 753,773,861 on account of Access Promotion Contribution for USF charges from the operators during 2015-16. Non-recovery of receipts reflected the ineffective financial management of PTA and weak internal controls for realization of receivables. The detail is as under:

Sl No	DP No	Description	Amount
1.	137-17	APC for USF	724,321,943
2.	139-17	APC for USF-AJK&GB	29,451,918
Total			**753,773,861**

The matter was reported to PAO and management in December 2016. It was replied that the cases were under litigation in the court of law.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to pursue the cases for early recovery and get them verified from audit. No further progress was intimated till finalization of this report.

Audit recommends that the court cases may be pursued vigorously and recovery be got verified from audit.

(DP No. 137 &139)

5.5.5 Non-recovery of outstanding dues from WLL and LDI operators –Rs 10.852 million

According to section 30 of Pakistan Telecommunication (Re-organization) Act, 1996, all fees, fines or other amounts due or payable to the Authority may be recovered as arrears of land revenue.

PTA did not recover an amount of Rs 10,852,628 on account of Wireless Local Loop (WLL) and Long Distance & International (LDI) dues from the operators during 2015-16. The detail is as under:

Sl No	DP No	Description	Amount
1.	121-17	Outstanding dues from WLL operators	2,445,266
2.	132-17	Outstanding dues from LDI operators	8,407,362
Total			**10,852,628**

The matter was reported to PAO and management in December 2016. It was replied that out of total recoverable of Rs 10.852 million, an amount of

Rs 0.292 million against WLL & Rs 1.520 million against LDI had been recovered and remaining amount of Rs 9.040 million was outstanding. The reply was not acceptable as no documentary evidence i.e copies of cheques, BRV, ledger of operators and bank statements for recovered amount were provided and revision of demand notice was not found attached with reply.

DAC in its meeting held on 26th & 27th December, 2016, directed the management that the recovered amount may be got verified and the balance amount be recovered under intimation to audit. No further progress was intimated till finalization of this report.

Audit recommends that the recovered amount may be got verified and remaining dues be recovered under intimation to Audit.

(DP No.121&132)

5.5.6 Non-recovery of outstanding dues on account of R&D Contributions- Rs 37.888 million

According to condition 3.4.1 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 & 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 / FAB mandated payments. Further, clause 4.2.2 further stipulates that the licensee shall make this contribution within 120 days of the end of financial year.

PTA management did not recover an amount of Rs 37,887,523 on account of R&D Contribution from the operators during 2015-16. Non-recovery of receipts reflected the ineffective financial management of PTA and weak internal controls devised for realization of receivables.

The matter was reported to PAO and management in December 2016. It was replied that out of total recoverable Rs 37.888 million, an amount of Rs 12.522 million (33%) had been recovered and remaining Rs 25.365 million was recoverable. The reply was not acceptable as no documentary evidence i.e copies of cheques, BRV, ledger of operator, bank statements for recovered amount were provided and revision of demand notice was not found attached with reply.

DAC in its meeting held on 26th & 27th December, 2016, directed the management that the recovered amount may be got verified and the remaining amount be recovered under intimation to audit. No further progress was intimated till finalization of this report.

Audit recommends that the recovered amount may be got verified and remaining dues be recovered under intimation to audit.

(DP No.100)

CHAPTER-6

SPECIAL COMMUNICATIONS ORGANIZATION

6. SPECIAL COMMUNICATIONS ORGANIZATION

6.1 Introduction

Special Communications 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 the Ministry of Information Technology and Telecom Division (MoIT&T).

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. However, audit had observed that the Receivable Management, Financial Reporting & Controls of the entity were weak as evident from the ensuing audit paras.

AUDIT PARAS

6.3 Non-Production of Record

6.3.1 Non-provision of record of Subsidiary Companies of SCO

According to Section 14 (1) of Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001, the Auditor-General shall, in connection with the performance of his duties under this Ordinance, have authority - (a) to inspect any office of accounts, under the control of the Federation or of a Province or of a district, including treasuries, and such offices responsible for the keeping of initial or subsidiary accounts; (b) to require that any accounts, books, papers and other documents which deal with, or form, the basis of or otherwise relevant to the transactions to which his duties in respect of audit extend, shall be sent to such place as he may direct for his inspection; and (c) to enquire or make such observations as he may consider necessary, and to call for such information as he may require for the purpose of the audit.

SCO management owned two private companies that were registered as subsidiaries of SCO. Audit party requested for production of record but the same was not provided. The inclination of the management of SCO towards non-provision of record to audit was not only against the official norms but also did not serve the purpose of accountability and audit. DG SCO is the Chairman of the boards of the respective companies.

The matter was reported to PAO and management in November, 2016. It was replied that M/s Celmore was a private limited company registered with SECP. No funds out of SCO's budget were allocated to M/s Celmore and no public money was involved. SCO had no legal authority to obtain the record of a private limited company and produce it for audit purpose. The reply was not acceptable as the audit had serious concerns about ownership and subsidiary position of Celmore Technologies (Pvt) Limited and Celmore Cable Industries (Pvt) Limited (CCI) with SCO.

DAC in its meeting held on 26th & 27th December, 2016, directed management to provide the record along with Financial Statements audited by Chartered Accountant for verification of subsidiary position of above cited two companies. No further progress was intimated till finalization of this report.

Audit recommends that complete record along with Financial Statements duly audited by Chartered Accountants may be provided to verify the bonafide position of these companies.

(DP No.75)

6.4 Irregularity and Non-Compliance

6.4.1 Irregular payment on account of delivery of bills – Rs 2.504 million

According to Rule 12 of PPRs, 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 awarded work of distribution of bills to M/s Celmore and an amount of Rs 2,504,168 was paid on account of these services. The payment was held irregular as no open tender was floated to get economical & competitive rates for delivery of bills. Further, withholding tax and Punjab Sales Tax as applicable on services were not deducted.

The matter was reported to PAO and management in November, 2016. It was replied that work for delivery of telephone bills was awarded through agreement between SCO and Celmore in the year 2013. Further, Punjab Sales Tax was not applicable in AJK & GB. The reply was not acceptable as the expenditure was incurred without tender (i.e through direct contracting) and sales tax on services and withholding tax were applicable as the Celmore Company was registered with Regional Tax Office (RTO) Rawalpindi, Punjab.

DAC in its meeting held on 26th & 27th December, 2016, directed the management that the expenditure may be got regularized from the Board of SCO and subsequently from the PAO. Further, both the taxes be deducted and got verified from audit. No further progress was intimated till finalization of this report.

Audit recommends that expenditure may be got regularized from the Board of SCO and subsequently from the PAO under intimation to Audit. Further, withholding Tax and Punjab Services Tax may also be deducted as the contractor was registered with RTO Rawalpindi.

(DP No.77)

6.4.2 Irregular Procurements through splitting –Rs 2.049 million

According to Rule-9 of PPRA 2004, a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned.

SCO management incurred an expenditure of Rs 2,049,997 on petty works during financial years 2014-15 & 2015-16. The expenditure was held irregular as works were splitted to avoid open tender. The quotations were collected from selected vendor rather than in sealed form to get fair price and value for money.

The matter was reported to PAO and management in December, 2016. It was replied that tender was not required as the amount of each work did not exceed the limit of Rs 100,000. Quotations were called from three different dealers and works were awarded to the lowest contractor. The reply was not acceptable as evident from the record and certain works had consecutives voucher numbers and same date and month which proved that works were splitted to avoid open tender. Hence, the government / organization was deprived off to get fair, transparent, economic and competitive rates.

DAC in its meeting held on 26th & 27th December, 2016, directed the management that the expenditure may be got regularized from the Board of SCO and subsequently from the PAO. No further progress was intimated till finalization of this report

Audit recommends that the matter may be investigated for splitting the works to avoid open tender besides fixing responsibility on those at fault.

(DP No.199)

6.5 Receivables

6.5.1 Non-recovery of outstanding dues from defaulters – Rs 51.868 million

As per Rule 26 of GFR Vol-I, it is the duty of controlling officers to see that all the sums due to Govt. are regularly & promptly assessed, realized & duly credited in Public Account. Further, Rule 28 of GFR Vol-I stipulates that "No amount due to Government should be left outstanding without sufficient reason".

There were 11,252 cases against whom an amount of Rs 51.868 million was outstanding / recoverable on account of SCO bills during financial year 2015-16. AOTR wise summary of defaulter cases is as under:

Name of AOTR	Defaulter Cases	Amount (Rs in Million)
AOTR Muzaffarabad	8,556	43.925
AOTR Mirpur	1,450	2.99
AOTR Gilgit	1,246	4.953
Total	**11,252**	**51.868**

The matter was reported to PAO and management in November, 2016. It was replied that an amount of Rs 7.592 million had been recovered out of total amount of Rs 51.868 million. However, an amount of Rs 141,009 had been verified by audit. The list of defaulters of Rs 51.868 million in respect of AOTRs i.e Muzaffarabad, Mirpur, Gilgit would be provided to audit shortly. The reply was not acceptable as SCO H/Q had not pursued the cases with its revenue offices at AJK & GB to effect recovery from defaulters.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to recover the remaining amount at the earliest besides getting it verified from audit. Further, the defaulter lists of each AOTR be provided to audit immediately. No further progress was intimated till finalization of this report.

Audit recommends that AOTR & subscriber wise detail / break up of receivables may be provided to Audit. Further, recovery may be effected at the earliest and got verified from Audit.

(DP No.74 & AP No 102)

CHAPTER-7

TELEPHONE INDUSTRIES OF PAKISTAN (PVT) LTD

7. TELEPHONE INDUSTRIES OF PAKISTAN PRIVATE LIMITED

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 the 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 t finalization of the Report. Hence, no comments on accounts could be mad However, audit had observed that the Receivable Management, Financi Reporting & Controls of the entity were weak as evident from the ensuing auc paras.

AUDIT PARAS

7.3 Irregularity & non-compliance

7.3.1 Irregular procurement on cash basis through temporary advance - Rs 1.5 million

According to 2.3.2.8 of Accounting Policies and Procedure Manual (APPM), payments should be made through direct bank transfer and cheques to minimize the risk of fraud and corruption. Further, according to Rule-12 of PPRs, 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.

TIP management approved an amount of Rs 1.5 million as temporary advance to procure Telephone Components and materials against 79 items of 5K NTC Projects. Approval of procurement through cash rather than open tender was irregular.

The matter was reported to PAO and management in November, 2016. It was replied that procurement of various items was made through temporary advance as these were not supplied by the bidder and subsequently purchased from open market on urgent basis.

DAC in its meeting held on 26th & 27th December, 2016, directed the management that the reply duly supported with documentary evidence be got verified from audit. No further progress was intimated till finalization of this report

Audit recommends that the relevant record may be provided to audit.

(DP No.71)

7.4 Internal Control Weaknesses

7.4.1 Loss on account of electricity and Sui Gas -Rs 67.446 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 had bulk meters of Electricity and Sui Gas at T&T Colony Haripur since the inception of Telephone Industries of Pakistan and T&T Colony. The Electricity and Sui-Gas were supplied to the residents of the Colony and subsidiaries of Colony Board from bulk meters on commercial rates and Domestic rates, respectively. During the Financial Year 2015-16, TIP had to sustain a loss of Rs 67,445,791 on account of payment made to WAPDA and SNGPL and bills received from the consumers.

The matter was reported to PAO and management in November, 2016. It was replied that TIP had now withdrawn itself from the T&T colony matters and had taken up the matters with SNGPL and WAPDA to transfer the ownership of these bulk meters

DAC in its meeting held on 26th & 27th December, 2016, pended the para for decision of PAC.

Audit recommends that responsibility may be fixed for the loss sustained by the TIP and recovery from consumers may also be effected under intimation to audit.

(DP No.63)

7.4.2 Non-existence of physical assets – Rs 209.628 million

According to Rule 15 of GFR Vol-I, every officer whose duty is to prepare and render any accounts or returns in respect of public money or stores is personally responsible for their completeness and strict accuracy.

TIP management did not carry out physical verification of untraceable non-current assets amounting to Rs 209,628,066 as pointed out in term of Note - 5.1 of the annual audited financial statements for the year 2012-13. Physical verification of referred assets was required to be carried out and presented to the Board. It was found that no such report had been completed and presented to the Board despite lapse of considerable time.

The matter was reported to PAO and management in December, 2016. It was replied that additional budget to carry out this task had been placed before the TIP Board for approval in its 188th meeting held on 7th December, 2016. The task would be carried out urgently for completion of Fixed Assets verification and tagging assignment after completing the required process of hiring suitable company at the earliest.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to conduct an inquiry under intimation to audit. No further progress was intimated till finalization of this report.

Audit recommends that the matter may be probed and investigated in detail to fix the responsibility against those who were involved in this misrepresentation.

(DP No.145)

7.4.3 Illegal possession of plot by PTCL

According to Rule 10(i) of GFR Vol-I, every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

TIP made payment of Rs 754,666 for purchase of land measuring 1333.33 square yards to PTCL through cross cheque bearing No. TIP 022163 dated: 31.12.1988 but the possession of land was not handed over to TIP by PTCL despite lapse of 28 years.

The matter was reported to PAO and management in December, 2016. It was replied that efforts were being made to resolve the matter with PTCL.

DAC in its meeting held on 26th & 27th December, 2016, directed the management that efforts may be made to get vacated the illegal possession of plot under intimation to audit. No further progress was intimated till finalization of this report.

Audit recommends that the DAC directive may be implemented in letter and spirit.

(DP No.141)

7.5 Receivables

7.5.1 Non-recovery on account of standard rent from occupants of residential quarters - Rs 24.818 million

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

TIP management removed the contract employees on the direction of the Ministry of Information Technology. However, certain employees were allotted residential quarters whose house rent was being deducted from their monthly salaries but after their removal, the standard rent and cost of utilities was required to be recovered from them which had not been recovered. The amount of standard rent outstanding against the contract employees was Rs 24,817,891 for the period from March, 2014 to June, 2016.

The matter was reported to PAO and management in November, 2016. It was replied that the quarters were occupied by the ex-contractual employees of the TIP and this matter was sub-judice in different Courts of Law.

DAC in its meeting held on 26th & 27th December, 2016, directed the management to pursue the case in the Court of Law. The amount of standard rent may be recovered from the occupants besides getting it verified from audit. No further progress was intimated till finalization of this report

Audit recommends that the standard rent as pointed by audit may be recovered and got verified from Audit.

(DP No.67)

7.5.2 Non-recovery on account of electricity dues from housing society- Rs 21.709 million

As per Rule 26 of GFR Vol-I, it is the duty of controlling officers to see that all the sums due to Govt. are regularly & promptly assessed, realized & duly credited in Public Account. Further, Rule 28 of GFR Vol-I stipulates that "No amount due to Government should be left outstanding without sufficient reason".

TIP management did not recover outstanding electricity dues amounting to Rs 21,708,916 from Housing Society.

The matter was reported to PAO and management in November, 2016. It was replied that efforts were being made to recover the balance amount.

DAC in its meeting held on 26th & 27th December, 2016, directed the management that the recovered amount may be got verified from audit and the balance amount may also be recovered at the earliest under intimation to audit. No further progress was intimated till finalization of this report

Audit recommends that the recovered amount may be got verified from audit and efforts be made to recover the balance amount at the earliest.

(DP No.68)

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 unserved, underserved, 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. However, audit had observed that the Receivable Management, Financial Reporting & Controls of the entity were weak as evident from the ensuing audit paras.

AUDIT PARAS

8.3 Irregularities & Non-Compliance

8.3.1 Unlawful payment to Technical Auditors-Rs 54.736 million

According to Article 6.01 of Technical Auditor (TA) agreement, the TA must perform his functions in accordance with the Technical Audit Agreement. TA must determine as to whether or not the USF Broadband services meet the service specifications and requirements:

Contrary to the above, TA did not perform its functions effectively. Audit team physically verified the Educational Broadband Centers (EBCs) and Community Broadband Centers (CBCs). It was noticed that community Broadband centers were not in open access of public for a minimum period of 12 hours per day as the same were established in PTCL exchanges. Moreover, the service provider did not extend training for each educational broadband centers and installed pirated softwares at all Broadband centers. As the Technical Auditors had failed to perform their duties, therefore, payment of Rs 54,736,334 was made irregular and unlawful.

The matter was reported to management in May, 2016. It was replied that Technical auditors had verified all BOQs / and services provided by Service Providers. The reply was not acceptable as all shortcomings were recorded during physical inspection. These shortcomings were duly signed by the USF engineers who had accompanied the audit team during physical verification.

DAC in its meeting held on 8th & 9th September, 2016 directed the USF Company to verify the software installed in EBCs and CBCs through a committee comprising of technical staff of MoIT and USF Company. No further progress was intimated till finalization of this Report.

Audit recommends that the directives of DAC may be implemented in true letter and spirit.

(Item No.46 of PAR of USF)

8.3.2 Less deduction of income tax from the salaries of officers – Rs 4.567 million

According to Section 12 (1) & (2) (a) (b) (c) of Income Tax Ordinance 2001, salary received by an employee in tax year, other than salary that is exempt from tax under this ordinance, shall be chargeable to tax in that year under the head " Salary". Section 13 (5) further stipulates that where in a tax year, the services of a housekeeper, driver, gardener or other domestic assistant is provided by an employer to an employee, the amount chargeable to tax to the employee under the head "Salary" for that year shall include the total salary paid to the domestic assistant in that year of services rendered to the employee.

USF management had provided drivers and fuel to the officers along with monetization allowance but USF Company had not included the fuel charges and salaries of drivers in the taxable income of its employees (manager & above). Resultantly, income tax amounting to Rs 4,566,587 was less deducted from the salaries of the officers.

The matter was reported to PAO and management in November, 2016. It was replied that fuel was company business expenditure and was allowed the officers for duties of employment. Fuel was not paid as allowance to officers but Company directly paid the bill to POL Company through fuel cards. Section 12 (d) excludes such expenditure from taxability under salary head. The reply was not acceptable as fuel was part of allowances given to officer. Moreover, the officers were using it for private purpose only and pool vehicles were being used for the official duties as shown by the log books of pool cars. Therefore, amount was chargeable to tax.

DAC in its meeting held on 8th & 9th September, 2016 directed the USF management to seek clarification from FBR regarding less deduction of Income Tax from the salaries of officers due to non-accounting of salaries of drivers and fuel charges in total taxable income. No further progress was intimated till finalization of this Report.

Audit recommends that income tax may be deducted and get it verified from audit.

DP No.44 & Item No.32 of PAR of USF)

8.4 Performance

8.4.1 Poor planning of project design and non-achievement of milestones

According to rule 26 (2) of USF Rules, the contractor is bound to start working on the project to complete roll-out in a maximum period of three or five years, as the case may be. Any extension beyond three or five years for roll-out obligations shall require fresh approval of the Board. Article 16.02 of Services Subsidy Agreement (SSA) provides that time is the essence of the contract.

USF management did not properly design, plan and get executed the projects within given time period as depicted below:

Sr. No	Project/Lot Name	Contract Date	Completion Date as per contract	Actual Completion Date	Delay Period
RTeS					
1	Mansehra	24.06.08	23.12.09	Not completed	7 years
2	Larkana	17.05.09	16.11.10	Not completed	6 Years
BROAD BAND					
3	HTR (PTCL) Hazara Telecom Region	24.11.09	23.07.11	Not completed	5 Years
4	STR-V (PTCL) Southern Telecom Region	08.05.12	07.01.14	Not completed	2.5 years
5	RTR (PTCL) Rawalpindi Telecom Region	11.12.13	10.08.15	Not completed	1 year
6	NTR-1 (PTCL) Northern Telecom Region	11.12.13	10.08.15	Not completed	1 year

The matter was reported to management in October, 2016. It was replied by the USF company management that due to worsening law and order situation in project areas, these projects were delayed and LD had been deducted. The reply was not acceptable as all the six projects were delayed from one to seven years and no documentary evidence was provided in support of reply.

DAC in its meeting held on 26th & 27th December, 2016 directed the management to get revalidated the bank guarantees and expedite these projects besides getting the recovery of LD charges under intimation to Audit. No further progress was intimated till finalization of this Report.

Audit recommends that the projects under progress may be expedited and the LD charges deducted against closed projects be got recovered and verified.

(DP No.42)

8.5 Internal Control Weaknesses

8.5.1 Accumulation of Unused funds –Rs 38.018 billion

According to 33 B (2) of Pakistan Telecommunication (Re-organization) Act, 1996 (amended 2006), the Universal Service Fund 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.

Audit observed that annual contribution to USF Fund for the last three years 2013-2016 was Rs 43,553.68 million whereas an amount of Rs 38,018.52 million remained unutilized as on 30th June, 2016 as per record of Manager USF Fund at MoIT, Islamabad. USF Company could utilize hardly Rs 5,535.16 million of the total funds collected due to which the management could not achieve its goals.

The matter was reported to management in November, 2016. It was replied that USF Company utilizes only fund allocated during the year on the basis of its annual requirement and as per approved budget by BoD. The reply was not acceptable as the funds were allocated to USF Company as per their demand and annual contribution to the Fund was in excess of their utilization.

DAC in its meeting held on 26th & 27th December, 2016 directed the management to explore new horizons / projects in underserved and unserved areas for utilization of USF Fund and expedite the pace of its spending. No further progress was intimated till finalization of this Report.

Audit recommends that the directives of DAC may be implemented in letter and spirit.

(DP No.45)

8.5.2 Loss due to non-provision of broad band services by World Call – Rs 968.398 million

According to clause 2(a) & 3 (a) of Schedule-A of the agreement, the Service Provider shall ensure the quality of service requirements established by the PTA for Broadband Services throughout the term of the Agreement.

USF Company awarded two Broadband projects to M/s World Call having contract value of Rs 1,267.136 million. The scope of the projects was to provide broadband services to 11 Districts of MTR and 06 Districts of GTR. The project was completed on 10th July, 2012 and 29th June, 2012 respectively. Later on, USF Company team pointed out that the Network in all 17 respective districts was not operative and all sites had been closed. This resulted into colossal wastage of public money paid to service provider amounting to Rs 968,397,509 due to closure of these projects. Detail is as under:

S.No	Description	Contract value	Payment made
01	Multan Telecom Region (MTR)	785,721,250	593,386,622
02	Gujranwala Telecom Region (GTR)	481,415,250	375,010,887
Total		**1,267,136,500**	**968,397,509**

The matter was reported to management in May, 2016. It was replied that M/s World Call had referred the matter to the USF Board under section 31 of USF Rules. The USF Board in its 40th Board of Directors Meeting held on 01.07.15 approved the formation of Appeal Committee. The appeal committee decided that performance bank guarantee of the service provider up to Rs 75,588,373 in case of MTR and Rs 63,087,693 in case of GTR shall stand forfeited by USF Company and the payments amounting to Rs 45,311,691 which were deducted as LD shall be reimbursed to the service provider. The implementation of decision of committee was in process. The reply was not acceptable as the decision of the appeal committee regarding forfeiture of performance bank guarantee of Rs 138.676 million was not implemented so for.

DAC in its meeting held on 8th & 9th September, 2016 directed the management to recover the outstanding dues from M/s World Call. No further progress was intimated till finalization of this Report.

Audit recommends that the decision of the appeal committee may be implemented and get it verified from audit.

(Item No.29 of PAR of USF)

8.6 Receivables

8.6.1 Non-recovery on account of Access Promotion Contribution for USF – Rs 51,682.665 million

According to Section 10 Sub Section (2) of Access Promotion Regulation, 2005, "An 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. 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.

Universal Service Fund management had failed to collect the funds on account of APC for USF amounting to Rs 51,682.665 million (as per PTA record). This showed weak receivable management at the part of MoIT (USF Fund). Detail is as under:

Sr No	Operators	Principal Amount	LPAF as on 12.01.2017 on principal dues	Escrow Collection	Total Outstanding including subjudice amount
1	World Call	1,766,190,453	1,760,739,115	335,002,425	3,191,927,143
2	Red Tone	4,118,807,003	4,102,687,592	186,631,541	8,034,863,054
3	ADG LDI	426,689,167	328,636,065	234,489,102	520,836,130
4	Telecard	2,674,992,227	2,775,139,931	315,859,395	5,134,272,763
5	Dancom	3,702,346,403	4,178,664,976	186,631,587	7,694,379,792
6	Wisecom	775,033,856	863,091,705	186,631,587	1,451,493,974
7	Circle net	3,592,238,011	3,738,511,492	186,631,601	7,144,117,902
8	Wateen	2,052,146,352	1,837,217,586	526,719,136	3,362,644,802
9	4 B Gentle	941,532,127	1,088,213,003	186,631,494	1,843,113,636
10	Multinet	4,468,856,849	4,238,259,778	382,859,904	8,324,256,723
11	Telenor LDI	1,963,069,008	658,265,496	-	2,621,334,504
12	Linkdot net	535,294,151	176,151,497	-	711,445,648
13	FDI	41,364,565	176,651,563	-	218,016,128
14	CM Pak LDI	104,290,809	30,744,335	-	135,035,144
15	Interward	70,534,562	66,399,620	-	136,934,182
16	Callmate	243,284,237	125,688,000	-	368,972,237
17	PTCL-	766,320,524	-	-	766,320,524
18	PTCL	-	22,701,038	-	22,701,038
	Total	**28,242,990,304**	**26,167,762,792**	**2,728,087,772**	**51,682,665,324**

The matter was reported to management in May, 2016. The matter was discussed with the USF Manager who replied that the requisite amount was subjudice. The recovery and status of court cases as and when decided will be provided to audit.

Audit recommends that heavy outstanding dues should be recovered besides vigorously pursuance of the court cases for early decision.

(Item No.01 of PAR of USF)

8.6.2 Non-recovery of outstanding USF dues – Rs 1,009.020 million

Clause 6.1 of Long Distance International (LDI) License issued under section 21 of the Pakistan Telecommunication (Re-organization) Act, 1996 requires that 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 / FAB mandated payments. Further, clause 4.2.2 stipulates that the licensee shall make this contribution within 120 days after the end of financial year.

USF management failed to recover an amount of Rs 1,009,020,518 on account of USF contributions from the operators as appeared in the PTA receivable sheet. The Universal Service Fund had no receivable ledger and mechanism of recovery which showed ineffective receivable management and weak internal controls.

The matter was reported to management in November, 2016. It was replied by the USF Fund management that out of total amount, Rs 650 million had been recovered. The reply was not acceptable as no documentary evidence was provided in support of reply.

DAC in its meeting held on 26th & 27th December, 2016 directed the management that the recovered amount be got verified from audit and the remaining amount may be recovered within two weeks. No further progress was intimated till finalization of this Report.

Audit recommends that the reconciliation process with PTA may be expedited and outstanding USF dues may be recovered and got verified from audit.

(DP No.48)

ANNEXURES

Annexure-I

MFDAC PARAS

(Rs in million)

1.	**NATIONAL RADIO TELECOMMUNICATION CORPORATION (NRTC)**		
01	209-2017	Loss due to deduction of LD charges	0.632
02	212-2017	Non-recovery of balance amount	0.558
03	213-2017	Irregular expenditure for purchase of Batteries and Wires - US$ 45,705	4.753
04	214-2017	Irregular award on repeat order basis	1.312
05	218-2017	Irregular expenditure on procurement of Coaxial Cable	0.679
06	225-2017	Outstanding trade debts	1.129
		Total	**9.063**

2.	**FREQUENCY ALLOCATION BOARD (FAB)**		
1	174-2017	Non deduction of GST on Security Services	1.248
2	176-2017	Non re-farming of spectrum in 1900 MHz Band in AJK & GB	-
3	177-2017	Loss of million of rupees due to illegal use of frequency for provision of 4G/LTE Services by PTCL through introduction 4G LTE Tablet 'Charji Evo Tab' and 'Charji EVO Cloud'	-
4	178-2017	Loss of billion of rupees due to Illegal use of 3G service in GSM 900 MHz Band by Ufone	-
5	179-2017	Non-vacation of frequency spectrum from non-licensees	-
		Total	**1.248**

3.	**INFORMATION COMMUNICATION TECHNOLOGY RESEARCH AND DEVELOPMENT FUND COMPANY**		
01	78-2017	Non formulation of Finance & Audit Committee	-
02	83-2017	Non constitution of Project Management Committee	-
03	84-2017	Ineffective Internal Audit Department	-
04	85-2017	Non production of demand notes and un reliable receivable record	-
05	88-2017	Non preparation of Annual Report of ICT R&D Company	-
06	90-2017	Non appointment of Board of Directors	-
07	91-2017	Non preparation of comprehensive Human Resource Manual	-
08	92-2017	Extravagant/Irregular Expenditure on Legal Fee	0.437
09	94-2017	Irregular appointment of Dy Manager Facilities & Securities and payment of pay & allowances	1.390
		Total	**1.827**

4.	**NATIONAL TELECOMMUNICATION CORPORATION (NTC)**		
01	04-2017	Irregular release of retention money to a black listed contractor	0.950
02	08-2017	Non recovery on account of damage charges	4.723
03	10-2017	Loss due to non renting out of spare space of NTC building	10.282
04	15-2017	Irregular expenditure on repair and maintenance work	0.720
05	18-2017	Litigation against Kashmor Land	0.000

06	20-2017	Non establishment of Call Center Solution for NTC Fault Management & Telephone Information System	0.000
07	23-2017	Procurement of Multimedia Projector without tendering	0.199
08	29-2017	Irregular expenditure on establishment of NTC Data Center	399.500
09	31-2017	Notice of Demand issued from FBR to NTC	96.502
10	32-2017	Non Utilization of Prime Land of NTC	0.000
11	35-2017	Non-Conducting of Internal Audit for the year 2013-14,20145-15 & 2015-16	0.000
12	51-2017	Unauthorized Payment of Property Tax	0.219
13	56-2017	Loss due to demolishing of CC repeater Huts	4.194
14	62-2017	Irregular payment on account of hired houses in excess of rates as per leased agreement	0.447
15	154-2017	Unauthorized employment on contract basis	1.431
16	156-2017	Irregular expenditure on procurement and repair & maintenance works	2.102
17	157-2017	Non Recovery on account of damage charges	3.493
18	158-2017	Irregular payment of Income Tax on Electricity Bills	0.799
19	159-2017	Irregular execution of work for replacement of damaged U/G Cable	2.544
20	160-2017	Loss of revenue against idle Microwave Stations	26.972
21	162-2017	Outstanding standard rent against unauthorized occupation of NTC Quarters at Khuzdar	0.553
22	168-2017	Non auction/disposal of unserviceable store	0.500

23	169-2017	Non recovery of HBA	0.259
24	184-2017	Non recovery of liquidated damages from the contractor	0.167
25	185-2017	Irregular expenditure on distribution of NTC Telephone bills through lineman	0.304
26	187-2017	Non recovery of re-construction charges of NTC huts affected by Karachi -Thatha dual carriage way project, Hyderabad	0.353
27	189-2017	Loss due to poor policy of NTC for providing internet services	0.000
28	190-2017	Irregular allocation of rest house, non revision of room rent charges and non recovery of room rent charges	0.268
29	194-2017	Non-recovery of liquidated damages	0.371
30	195-2017	Understatement of pre-deposit works due to non-accountal of establishment charges	0.909
31	196-2017	Irregular / extravagant expenditure on purchase of exercise	0.082
32	227-2017	Unauthorized payment of petrol charges	0.179
		Total	**559.022**

5.	**PAKISTAN TELECOMMUNICATION AUTHORITY (PTA)**		
01	98-2017	Hiring of buildings for establishment of zonal offices in a non transparent manner in residential areas	2.640
02	103-2017	Irregular payment of property tax without transfer of ownership in the office of the property tax authority	1.156

03	104-2017	Unauthorized payment of advance house rent allowance	1.324
04	106-2017	Irregular award of contract to M/s KPMG as tax consultant and non deduction of GST	2.246
05	108-2017	Unjustified expenditure regarding preparation of accounting manual and non deduction of GST	1.853
06	109-2017	Unauthorized payment of proficiency incentive (Honorarium) to officers BPS 19 & above	6.697
07	111-2017	Irregular expenditure over and above budget allotment	5.584
08	113-2017	Unauthorized payment to state life insurance on account of annual premium against employee's contributory provident fund	11.996
09	114-2017	Loss on account of annual radio frequency spectrum fee	156.588
10	116-2017	Ill planning for preparation of budget and non surrender of savings in budget	1422.424
11	117.2017	Non deduction of GST on security services and Janitorial/cleaning services	1.324
12	119-2017	Non-Transfer of funds to AJ&K council	565.108
13	120-2017	Non-remittance of surplus receipts to FCF	3647.389
14	122-2017	Unauthorized investment in gratuity account	199.901
15	124-2017	Unauthorized maintaining of CPF account and overpayment regarding contribution in CPF account NIDA18-4	14.775
16	125-2017	Irregular appointments on additional charge	0.000

17	126-2017	Non deduction of benevolent fund & group insurance from the staff of PTA	4.049
18	127-2017	Blockage of funds due to non construction of plots	2.035
19	129-2017	Non-Disposal of condemned vehicles	0.000
20	131-2017	Non-calculation of loss on account of illegal termination of international traffic	0.000
21	135-2017	Irregular appointment of Mr. Junaid Ahmed Shabbir on deputation	0.000
22	136-2017	Non recovery on account of numbering charges	0.499
23	140-2017	Non recovery of outstanding dues on account of USF Charges	100.345
24	150-2017	Loss due to non construction of residential flats	112.141
25	228-2017	Illegal use of frequency by PTCL	-
26	229-2017	Non-preparation of targets & goals by PTA	-
27	230-2017	Irregular grant of motor car loan	2.650
28	231-2017	Unjustified expenditure on pay and allowances	1.470
29	232-2017	Overpayment on account of orderly allowance	0.084
30	233-2017	Non maintenance of cash book	-
31	234-2017	Non-preparation of Infrastructure Sharing Framework	-
32	235-2017	Irregular expenditure on software & hardware	-
33	236-2017	Unjustified expenditure on legal fee	-
34	237-2017	Irregular booking of expenditure	-
35	238-2017	Unauthorized retention of funds instead of remittance to Federal Consolidated Fund	-

36	239-2017	Non-adherence to Regional Recruitment Quota	-
37	240-2017	Delay in acquiring license of Oracle	-
38	241-2017	Unjustified grant of additional charge	-
39	242-2017	Non preparation of Regulatory Framework	-
		Total	**6,264.271**

6.	**TELEPHONE INDUSTRIES OF PAKISTAN (TIP)**		
01	64-2017	Extravagant expenditure on reimbursement & purchase of medicine	19.860
02	65-2017	Non-Generation of Internal Audit Report and In-effective & scanty role of internal audit department	0
03	66-2017	Irregular purchase of PCBs without open tender	3.475
04	70-2017	Irregular Procurement of PCBs	0.640
05	72-2017	Non deduction of services tax on security service	0.996
06	142-2017	Non recovery of outstanding receivables	0.307
07	143-2017	Non auction of unserviceable vehicles	3.600
08	144-2017	Non maintenance of record in appropriate manners	0.000
09	146-2017	Irregular transfer of money to colony board	7.300
		Total	**36.178**

7.	UNIVERSAL SERVICE FUND (USF)		
01	37-2017	Irregular Payment to Appeal Committee	0.750
02	38-2017	Non deduction of GST on Services	1.564
03	39-2017	Non obtaining of Insurance Documents	0.000
04	46-2017	Non production of demand Notes and Unreliable receivables record	0.000
05	47-2017	Non provision of audited Financial Statements of USF Fund	0.000
06	49-2017	Non Reconciliation of dues and Difference	875.271
07	50-2014	Non Transfer of APC for USF and R&D fund Contribution of AJ&K & GB	520.000
08	22 of PAR	Un-justified extension of the Impact assessment study project	0.000
09	31 of PAR	Non deduction of stamp duty on supplies	0.192
10	48 of PAR	Non forfeiture of performance guarantee in Mansehra and Larkana Lot	0.000
		Total	**1,397.777**