



**AUDIT REPORT
ON
THE ACCOUNTS OF
TELECOMMUNICATION SECTOR
AUDIT YEAR 2017-18**

AUDITOR-GENERAL OF PAKISTAN



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ABBREVIATIONS & ACRONYMS

ADP	:	Annual Development Plan
APC	:	Access Promotion Contribution
BOQ	:	Bill of Quantity
CBC	:	Community Broad Band Centers
CC	:	Coaxial Cable
CCTV	:	Close Circuit Television
CDMA	:	Code Division Multiple Access
CFR	:	Cost & Freight
CGA	:	Controller General of Accounts
CMA	:	Controller Military Accounts
CMO	:	Cellular Mobile Operators
CPP	:	Calling Party Payment
CTC	:	Casual Telephone Connections
CWO	:	Civil Works Origination
DAC	:	Departmental Accounts Committee
DDO	:	Drawing & Disbursing Officer
DDP	:	Delivery Duty Paid
DPLC	:	Domestic Private Leased Circuits
DSL	:	Digital Subscriber Line
DWP	:	Development Working Party
DXX	:	Digital Cross Connect
EBC	:	Educational Broadband Centers
ECC	:	Economic Coordination Committee
ECNEC	:	Executive Committee of National Economic Council
EE	:	External Evaluators
FBR	:	Federal Board of Revenue
FED	:	Federal Excise Duty
FAB	:	Frequency Allocation Board
FAQ	:	Frequently Asked Question

FBA&AP	:	Financial Budgeting Accounting & Audit Procedure
FCC	:	Final Capital Cost
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
GPoN	:	Giga Passive Optical Network
GSM	:	Global Systems of Mobile
IGE	:	International Gateway Exchange
KPIs	:	Key Performance Indicators
KPK	:	Khyber Pakhtunkhwa
LC	:	Letter of Credit
LDI	:	Long Distance International
LL	:	Local Loop
LMR	:	Land Mobile Radios
LOI	:	Letter of Intent
LPAF	:	Late Payment Additional Fee
LTE	:	Long Term Evaluation
MB	:	Measurement Book
MO	:	Military Operations
MoIT	:	Ministry of Information Technology
MoDP	:	Ministry of Defence Production
MSDN	:	Multi Services Data Network
NGMS	:	Next Generation Mobile Service
NGN	:	New Generation Network
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 Interface
PSDP	:	Public Sector Development Programme
PTA	:	Pakistan Telecommunication Authority
QoS	:	Quality of Service
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
SLA	:	Service Level Agreement
SP	:	Service Provider
SSA	:	Service Subsidy Agreement
TDM	:	Time Division Multi Plexing
TIP	:	Telephone Industries of Pakistan
TT	:	Telegraphic Transfer
USF	:	Universal Service Fund
VIM	:	Virtual Inter-connect Media
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 2016-17 was conducted during 2017-18 on test check basis with a view to report significant findings to the relevant stakeholders. The main body of the Audit Report includes systemic issues and serious audit findings. 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 Cabinet Division, Ministry of Defence Production and Ministry of Information Technology.

The Report has been finalized in the light of discussion and the directives issued during the DAC meetings. The Audit findings indicate the need for adherence to the regularity framework besides instituting and strengthening internal controls to avoid recurrence of similar violations and irregularities.

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

Dated: 23rd February, 2018

Sd/-
(Javaid Jehangir)
Auditor-General of Pakistan

EXECUTIVE SUMMARY

The Audit Report presents results of the audit of the accounts for financial year 2016-17 of Telecommunication Sector which includes Pakistan Telecommunication Authority (PTA), Frequency Allocation Board (FAB), National Radio and Telecommunication Corporation (NRTC), Ignite National Technology Fund & Company (formerly NICT R&D Fund), National Telecommunication Corporation (NTC), Special Communications Organization (SCO) and Universal Service Fund & Company (USF Co).

The telecommunication organizations (PTA, FAB, NTC, Ignite and USF) were established under Pakistan Telecommunication (Re-organization) Act 1996 (amended in 2006). NRTC was registered as private limited company incorporated under the Companies Ordinance, 1984. SCO was established under the directives of Prime Minister in 1976. PTA & FAB are under administrative control of Cabinet Division. NRTC is administered by the Ministry of Defence Production (MoDP) whereas, Ignite, NTC, SCO and USF Company are under the control of the Ministry of Information Technology & Telecom Division (MoIT&T).

The Director General, Posts Telegraphs and Telephones Audit has the mandate to carry out the audit of the above seven (07) entities of Telecommunication Sector. The Report has been finalized in the light of discussions and directives issued during the DAC meetings with the respective PAOs. Out of these entities PTA, NRTC & USF Company provided financial Statements for the year 2016-17, whereas FAB, NTC and Ignite did not provide the financial statements for the year 2016-17, therefore, audit could not comment on the financial health and discipline of these entities.

The Directorate General Audit had a budget allocation of Rs 37 million for the financial year, a human resource of 44 officers & staff and utilized 3,792 mandays for the audit of these entities.

a. Scope of Audit

The total budgeted expenditure and revenue of Telecommunication Sector for the financial year 2016-17 was Rs 261,520.089 million and Rs 156,687.819 million respectively. Director General Audit PT&T audited the expenditure of Rs 251,472.093 million (96% of the auditable budget allocation ¹) and revenue of Rs. 112,329.204 million (72% of total revenue).

b. Recoveries at the instance of audit

The recoveries of Rs 30,400.252 million were pointed out by Audit, out of which recovery of Rs 30,355.939 million was accepted and recovery of Rs 6,939.334 million was effected till the finalization of this Report.

c. Audit Methodology

The Desk audit could not be conducted because the telecommunication entities had not maintained their accounts at one central place, neither the data was available online. However, permanent files maintained in the office of the Director General Audit (PT&T) were updated after obtaining the relevant information from the entities which helped in the audit planning to identify high risk areas. Field audit was conducted on the basis of review of record, field visits and discussion with management.

d. Audit Impact

On the advice of Audit, Telecommunication entities 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

¹ : Expenditure of most of the formations not audited was met from the budgetary allocation of their respective headquarters.

competent authority.

- FAB has got its technical regulations approved from the Board of Directors and submitted them to Federal Government for approval.
- NTC management has submitted revision of its employees service regulations on the advice of Audit and in compliance to DAC and PAC directives.
- According to the DAC direction given in its meeting held on 26th and 27th December, 2016 NTC has forwarded its insurance policy to Finance Division for approval.

e. The Key Audit Findings of the Report;

The Audit Report comprises 82 Audit Paras pointing serious irregularities:

- i. Auditable record was not produced to Audit in two (02) cases.¹
- ii. Recoveries were pointed out in twenty-four (24) cases amounting to Rs 30,355.939 million.²
- iii. Four (04) cases of violation of PPRA Rules amounting to Rs 23.466 million were pointed out.³
- iv. Unlawful Investment amounting to Rs 1,241.061 million was noted in one case.⁴
- v. Audit noted eighteen (18) cases of Internal Control Weaknesses and violation of various procedures amounting to Rs 67,004.937 million.⁵
- vi. Unlawful launch of 4G Services in AJ&K and GB was pointed out in two (02) cases amounting to Rs 92,630 million.⁶

¹ Para 1.4.1 and 5.4.1

² Para 1.6.2, 1.8.1 to 1.8.3, 3.6.1 to 3.6.9, 4.6.1, 4.6.2, 5.8.1 to 5.8.7, 6.5.1 and 7.6.1

³ Para 3.4.1, 3.4.2, 5.5.6 and 6.4.3

⁴ Para 5.5.1

⁵ Para 1.7.2 to 1.7.7, 2.5.2 to 2.5.4, 3.5.1, 3.5.2, 4.5.1, 4.5.2, 5.7.1, 5.7.2 and 7.5.1 to 7.5.3

⁶ Para 1.7.1 and 2.5.1

f. Recommendations

- i) PTA and NTC management should ensure timely production of record to audit and take disciplinary action against the persons who created hindrance in the audit process.
- ii) The management of telecom entities should strengthen their receivable management and ensure recovery of outstanding dues.
- iii) The compliance of Public Procurement Regulatory Authority (PPRA) Rules, 2004 for procurement of goods and services be ensured, failing which strict disciplinary action against those at fault should be taken by the competent authority.
- iv) The management of NTC should abandon the practice of unlawful investment of funds in excess of working balance.
- 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 PTA & FAB should investigate the matter for unlawful launch of 4G services in AJK & GB and fix the responsibility for taking appropriate action.

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	03	Budget	261,520.089	
			Receipts	156,687.819	
2	Total Formations under Audit Jurisdiction	40	Budget	261,520.089	
			Receipts	156,687.819	
3	Total PAOs Audited	03	Budget	261,520.089	
			Receipts	156,687.819	
4	Total Formations Audited	21	418,207.908		
5	Audit Inspection Reports	21	363,801.297		

Table 2: Audit observations regarding Financial Management

(Rs in million)		
Sl. No.	Description	Amount placed under Audit Observation
1	Unsound asset management	7.903
2	Weak financial management	37,783.277
3	Weak internal controls relating to financial management	144,670.819
4	Others	17,104.431
Total		199,566.430

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

Sl. No.	Description	Expenditure on Acquiring Physical Assets (Procurement)	Civil Works	Receipts	Others	Total Current Year	Total Last Year
1	Outlays Audited	336.159	109.095	156,687.819	261,074.835	418,207.908	218,827.434
2.	Total Amount under Audit Observations	82.308	67.316	112,329.204	251,404.777	363,801.297	107,808.947
3.	Recoveries Pointed out by Audit	-	-	-	30,400.252	30,400.252	59,843.521
4.	Recoveries Accepted at the Instance of Audit	-	-	-	30,355.939	30,355.939	57,719.277
5	Recoveries Realized at the Instance of Audit	*	-	-	5,766.248	6,939.334	14,885.312
		**			1,173.086		

*: 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.	10,033.128
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.	159,177.36

5.	Recoveries, receivables and overpayments, representing cases of established overpayments or misappropriations of public money.	30,355.939
6.	Others including cases of accidents, negligence etc.	0

Table 5: Cost-Benefit

(Rs in millions)

Sl. No.	Description	Amount
1	Outlays audited	418,207.908
2	Expenditure on Audit	37.000
3	Recoverable realized at the instance of Audit	6,939.334
Cost Benefit Ratio of current audit year 2017-18		1.0: 187.6
Cost Benefit Ratio of last audit year 2016-17		1.0: 244.0

1 PAKISTAN TELECOMMUNICATION AUTHORITY

1.1 Introduction

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

- 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, modernize telecommunication systems and provide a wide range of high quality, efficient, cost effective and competitive telecommunication services in the country;
- Make recommendations for the Federal Government on policies with respect to International Telecommunications; and
- Regulate arrangements amongst telecommunication service providers of sharing their revenue derived from providing telecommunication service.

1.2 COMMENTS ON BUDGET AND ACCOUNTS

- 1.2.1 As per note 17 to Financial Statements ending 30th June 2017, an amount of Rs 17,513.384 million was charged as provision for doubtful receivables against receivables of Rs 17,614.721 million which was 99% of fee receivable. This resulted into understatement of assets.
- 1.2.2 As per note 17.1 to Financial Statements ending 30th June 2017, an amount of Rs 53,562.468 million was recoverable as Initial License Fee (ILF) and Initial Spectrum Fee (ISF). This amount was not recognized as receivable in the Financial Statement.
- 1.2.3 As per note 6 to the Financial Statement ending 30th June 2017, an amount of Rs 46.195 million was shown as payable to AJK & GB Councils as compared to Rs 189.548 million in the year ended June, 2016. The movement in the payables was not disclosed. Further, it was learnt by audit that the amount due to AJK & GB councils was not transferred till 30th June 2017.
- 1.2.4 As per note 23.1 of Financial Statements ending 30th June 2017 an amount of Rs 7,006.265 million was charged as provision for taxation. This resulted into understatement of income.

1.3 Status of Compliance with PAC Directives

PTA, Cabinet Division

Following table shows the compliance status of PAC directives

Sl. No.	Audit Year	Total Paras	Total Directives	Compliance		%age
				Received	Not received	
1	1997-98	07	07	07	00	100
2	1998-99	12	12	08	00	67
3	1999-00	06	06	06	00	100
4	2000-01	31	31	29	02	94
5	2001-02	09	09	05	04	56
6	2002-03	03	03	03	00	100
7	2003-04	08	08	05	03	57
8	2004-05	08	08	05	03	57
9	2005-06	10	10	08	02	80
10	2006-07	08	08	01	07	13
11	2008-09	26	26	13	13	50
12	2009-10	26	14	04	10	28
13	2010-11	38	23	13	10	56

AUDIT PARAS

1.4 Non-Production of Record

1.4.1 Non-production of record

According to section 14 (2) of AGP Ordinance, 2001, the officer in-charge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition, in compliance to the powers given to AGP vide section 14 (b) & (c).

Contrary to above, the following record relating to Universal Service Fund and Company was not provided by PTA for audit analysis and comparison:

- i. The detail of outstanding USF contributions from Telecom Operators as on 30th June, 2017;
- ii. The copies of ledger of APC for USF charges including Court Cases from Telecom Operators updated till 30th June, 2017; .
- iii. Updated detail of telecom coverage in Pakistan (served, un-served and underserved areas).

Audit was of the opinion that the entity hindered the process of accountability by non-producing auditable record.

The matter was reported to PAO and management in October, 2017 but no reply was received from PTA till date.

Audit recommends that responsibility may be fixed for non-production of record.

(DP No.148)

1.5 Irregularity and non-compliance

1.5.1 Less deposit of surplus into Federal Consolidated Fund – Rs 6,495.068 million

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

Contrary to the above, PTA deposited an amount of Rs 466.298 million into the Federal Consolidated Fund (FCF) on 23rd November, 2016 whereas an amount of Rs 6,961.366 million was required to be deposited in FCF as reflected in the Annual Audited Accounts for the year ended June 30, 2016. Thus an amount of Rs 6,495.068 million was less deposited in FCF.

Audit was of the opinion that less deposit of due amount to FCF was a violation and non-compliance of Pakistan Telecommunication (Re-Organization) Act, 1996.

The matter was reported to PAO and management in July to September, 2017. It was replied that the surplus was deposited into FCF after making an adjustment of Rs 6,495.068 million (the amount that was to be recovered from the Public Account on account of initial license fee). The reply was not acceptable because the Public Account and Federal Consolidated Fund were separate accounts. Further, PTA had also made payment of Rs 731 million to Public Account during the year showing that no adjustments were required.

The DAC in its meeting held in December, 2017 directed PTA to provide final reconciliation to audit for verification besides

depositing the amount into Federal Consolidated Fund.

Audit recommends that amount less deposited to FCF should be made available besides fixing responsibility.

(DP No.77)

1.5.2 Irregular / unlawful payment to MoIT - Rs 731.732 million

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

It was observed that an amount of Rs 6 billion was due from Public Account as per note 5 to financial statements for the year ended June 30, 2016. Instead of making the due adjustment, PTA paid an amount of Rs 731.732 million to Public Account (MoIT) on 28th July, 2015.

Audit was of the view that transfer of amount to Public Account by PTA without making adjustments of previous balance was irregular and unjust.

The matter was reported to PAO and management in July to September, 2017. It was replied that as per instructions of MoIT dated 23rd May, 2014 the USF bank account maintained by PTA was closed and the balance was transferred to Public Account. The reply was not tenable because the record showed Rs 6 billion as due from Public Account. Therefore, further payment without adjustment of previous amount was not justified and was against the provisions of the Act.

The DAC in its meeting held in December, 2017 directed PTA to reconcile the matter with MoIT and Audit forthwith.

Audit recommends that PTA management should reconcile the matter with MoIT and balances may be deposited into FCF.

(DP No.78)

1.5.3 Un-authorized payment of proficiency incentive and Eid allowance - Rs 77.662 million

According to Regulation 109 of PTA Employees' Service Regulations 2008, Chairman may grant proficiency allowance (s) based on the performance of all officers / employees on recommendations of the reporting officer upto EG-IV or by the Chairman for employees of SEG-I and above, as the case may be. Further, according to Authority decision on Regulation 111 of PTA Employees' Service Regulations 2008 while approving Eid Allowance on 1st July, 2016 (vide para 10 to 12 of portal file), the minimum service of 30 days to be eligible for Eid Allowance equal to one or more of the basic or gross salaries is not appropriate. It should be at least the same year's gratuity (six months), which is also equal to one gross salary. Hence, the regulation shall be changed accordingly.

In violation of the above, PTA management paid an amount of Rs 77.662 million to all PTA employees on account of proficiency incentive and Eid allowance during 2016-17. The performance of employees recommended by the reporting officer was not available in support of the payment. Further, the payment of Eid allowance was allowed to those who had thirty days service as on 1st Ramzan of the year instead of six months service as decided by the Authority on 1st July, 2016. Furthermore, despite the approval of the Authority, the decision was neither incorporated in the Employees Service Regulations nor gazette notified despite lapse of more than one year.

Audit was of the view that, across the board, payment of proficiency incentive and Eid allowance to the employees of PTA was contrary to its own employee's service regulations.

The matter was reported to PAO and management in July to September, 2017. It was replied that the recommendations regarding proficiency incentive of all the respective DGs / Directors were sought which were based on the performance of all the employees working under their control. As regards Eid allowance, the payment was made in accordance with the standing regulation on the subject matter. However, the PTA Employee Service Regulations were under review and the regulations would be amended accordingly as per the approval of the Authority. The reply was not tenable because the payment was made without obtaining performance of the employees as per PTA Employees Service Regulations 2008. Moreover, Eid Reward was granted in violation of the approval of Authority dated 1st July, 2016. Neither the approval was considered while making payment nor was it made part of the regulation which showed ineffective internal controls.

The DAC in its meeting held in December, 2017 directed PTA to provide justification and recommendations of the reporting officers for grant of proficiency incentive and detail of employees to whom payment of Eid reward was made having less than six months service to Audit for verification. DAC further directed PTA to make amendment in the regulation as approved by the Authority and get it gazette notified within 30 days.

Audit recommends that matter should be investigated and responsibility be fixed for payment in violation of the regulations and approval of the Authority.

(DP No.74 & 95)

1.5.4 Delay in issuance of enforcement order and non-recovery of fine - Rs 40.000 million

According to section 23 of the Pakistan Telecommunication (Re-organizations) Act 1996, where a licensee contravenes any provision of this Act or the rules made there under or any term or

condition of the license, the Authority or any of its officers not below the rank of Director may by written notice require the licensee to show cause within thirty days; levy fine which may extend to three hundred and fifty million rupees; or suspend or terminate the license, impose additional conditions or appoint an Administrator to manage the affairs of the licensee.

PTA issued a show cause notice to M/s CM Pak on 10th October, 2014 in which it was identified that in contravention of license terms and conditions, the licensee by suing the aforementioned white listed IP addresses through voice over Internet Protocol (VoIP) terminated around 2.2 million international calls accounting for around 11 million minutes. The licensee denied the allegation of SCN vide reply dated 7th November, 2014. The Authority being dissatisfied with the reply fixed the matter for hearing on 15th May, 2017 after abnormal delay of 2 years 6 months and 08 days. Finally, an enforcement order was issued on 31st July, 2017 and a fine of Rs 40.000 million was imposed which had never been recovered.

Audit was of the opinion that delay was due to lack of coordination between different wings of PTA which indicated administrative inefficiency.

The matter was reported to PAO and management in July to September, 2017. It was replied that hearing was held in 2014 and 2015. After fulfilling all formalities fine was imposed but the operator got relief from the court. The reply was not tenable as the hearing was conducted with abnormal delay of 3 years.

The DAC in its meeting held in December, 2017 directed the management to get the complete record verified from audit within 15 days.

Audit recommends that matter should be investigated for the delay and responsibility be fixed besides providing final status of recovery of the fine.

(DP No.89)

1.5.5 Unlawful grant of House Building Advance - Rs 5.148 million

According to Finance Division (Regulation Wing) letters No.F.3(2)R-4/2011 dated 24th December, 2012, 13th December, 2013 and 14th July, 2017 regarding terms and conditions of Management Position Scale holders, there is no provision for grant of House Building Advance to Chairman or any Member of the Authority. Further, PTA Employees Service Regulations, 2008 have no provision for grant of HBA to Chairman or any Members of the Authority.

PTA management introduced a policy titled grant of Loans and Advances in July 2009 but the same was not made part of Regulations. Section-1 para-2 of the policy under head eligibility showed that all persons working in PTA except temporary employees / daily wagers / consultants / management trainees and internees will be entitled to draw HBA. To be entitled for HBA, a person shall have a minimum of 3 years' service in PTA. This condition shall not be applicable in the case of persons holding tenure posts. Para 10 stipulates that Director (Internal Audit) will be responsible for post audit of House Building Loan (HBL).

PTA management paid an amount of Rs 5.148 million to Member (C&E) on account of House Building Advance (HBA) vide paid voucher No. 108 dated 22.09.2016 during 2016-17. The grant of HBA to the Member of the Authority was not covered under any Rule or Regulation being a tenure post for 04 years and MP Scale Holder. Further, Member (C&E) did not fall under the basic principle group grades as mentioned in para-4 of the policy. Further, no post audit for the HBA was carried out by the Director Internal Audit.

Audit was of the opinion that grant of house building advance to non- entitled employees was violation of prevalent rules.

The matter was reported to PAO and management in July to September, 2017. It was replied that HBA was granted under Policy

for Grant of Loan and Advances to PTA Employees duly approved by the Authority. As per clause 6(i) of the Policy, Members and the Chairman were eligible for the grant of HBA. The officer was granted lien to his substantive post (DG PTA) with approval of the Prime Minister. Further, the officer was a regular employee of PTA and his entire End of Service Benefits (EOS) lie with PTA. The reply was not acceptable as the officer was appointed Member (C&E) after resignation from the post of Director General. The grant of lien had nothing to do with the grant of HBA and the policy of loan and advances was for PTA employees whereas Member of the Authority does not fall under the definition of PTA employees. The detail provided by the payroll & cash (P&C) wing did not show any outstanding end of service (EOS) benefits of the officer.

The DAC in its meeting held in December, 2017 noted that grant of HBA to an officer of MP scale who was appointed Member (C&E) was against the Rules. DAC termed it gross violation of Rules and directed that responsibility may be fixed within a fortnight besides effecting recovery of amount in lump sum forthwith.

Audit recommends that amount granted to officer should be recovered in lump sum besides fixing responsibility for granting advance in violation of the Rules, Regulations and Policy.

(DP No.70)

1.5.6 Unjustified waiver of fine - Rs 3.700 million

According to section 23 of the Pakistan Telecommunication (Re-organizations) Act 1996, where a licensee contravenes any provision of this Act or the rules made there under or any term or condition of the license, the Authority or any of its officers not below the rank of Director may by written notice require the licensee to show cause within thirty days; levy fine which may extend to three hundred and fifty million rupees, or suspend or terminate the license, impose additional conditions or appoint an Administrator to manage the affairs of the licensee.

It was observed that PTA issued a Show Cause Notice (SCN) dated 15th August, 2008 to M/s Brain Tel Ltd on illegal and unlicensed operations of providing origination and termination of internal telephony calls. PTA further issued enforcement order and imposed a fine of Rs 3.7 million. The licensee filed an appeal in Islamabad High Court and the Court remanded back the case to the Authority on 30th November, 2015 to decide the SCN issued to the operator.

A committee was constituted on the issue who exonerated the operator from the allegations by giving the benefit of doubt. Director (Vigilance) PTA did not support the committee's view point regarding exoneration of the operator. Furthermore, the committee itself mentioned in its report that the Authority may issue a demand note to the licensee or its partner LDI equal to the amount of loss caused to exchequer. Nonetheless the committee unjustifiably extended undue favour to the operator through restoration of license and exoneration of fine.

Audit was of the view that waiver of fine was an undue favour to the operator and inefficiency on the part of Authority.

The matter was reported to PAO and management in July to September 2017. It was replied that the Authority constituted a Committee on 23rd February, 2016 to re-examine the matter related to SCN dated 15th August, 2008. The Committee gave its report on the legality and illegality of Brain Tel services without any reference to the issuance of any demand draft to the licensee. PTA filed a complaint against Brain Tel before FIA which was withdrawn by PTA through letter dated 22nd May, 2009. The Authority concluded that the licensee had not committed violation of license terms and conditions, accordingly fresh determination as per high Court Orders was issued in the instant matter. The reply was not tenable as the committee clearly stated that the Authority may issue a demand note to the licensee equivalent to APC for USF calculated against alleged illegal calls termination. The Authority neither issued demand note nor recovered

the fine against illegal calls.

The DAC in its meeting held in December, 2017 directed PTA to provide all relevant record including speaking orders of the Authority to Audit for scrutiny within 15 days.

Audit emphasizes to provide detailed reply duly highlighting the reasons for non-implementation of the issuance of demand notice, not considering the view point of Director (vigilance) and non-recovery of the fine.

(DP No.88)

1.5.7 Unlawful grant of additional charge, payment of special allowance and excess payment - Rs 3.717 million

According to Regulation 50 of PTA Employees Service Regulations 2008, if a post falls vacant and it is not possible to fill it immediately in the prescribed manner, the work of the post should, as far as possible, be distributed among more than one employees of the same post. However, where it is not feasible to distribute work as mentioned above, additional charge to vacant post of the same or higher level post may be entrusted in its entirety to an officer at the same station with the approval of the Chairman till further orders. An employee entrusted with an additional charge may be entitled @ 20% running basic pay for the entire period of additional charge. As per Sl. No. 123 of ESTACODE combination of appointments in terms of Fundamental Rules (F.R) 49 should be made as a temporary measure and should not ordinarily be made for a period of more than 6 months. Furthermore, as per Para 10 of Finance Division letter No.1(2) Imp/2016-333 dated 1st July, 2016 special allowance on additional charge of identical posts @ 20% of the basic pay subject to maximum Rs 12,000 is admissible.

Contrary to the above, PTA management granted additional charge to its thirteen (13) employees from 2015 till date which was against the Rules. Due to grant of additional charge beyond six months

payment of additional charge allowance of Rs 2.596 million was unlawful. Further, due to contradictory regulations with Government Rules an excess payment of Rs 1.120 million was made exceeding the entitlement.

Audit was of the opinion that grant of additional charge, payment of special allowance and excess payment was contradictory to the prevalent rules.

The matter was reported to PAO and management in July to September, 2017. It was replied that PTA was facing acute shortage of officers in different cadres and to meet the requirements, additional charge was given for some positions on temporary basis. Furthermore, the payment of additional charge was made in accordance with regulations 50 of Employees Service Regulations (ESR) 2008 hence no excess payment was made. The reply was not tenable because the additional charge was not granted as regular employment.

The DAC in its meeting held in December, 2017 directed PTA to make the regulation rational and pended the para for further discussion in PAC.

Audit recommends that excess amount be recovered besides fixing responsibility for the irregularities.

(DP No.75)

1.5.8 Unlawful payment of House Rent Allowance and non-deduction of 5% house rent charges - Rs 1.729 million

According to Rule 11 (7) of Accommodation Allocations Rules, 2002, in case of posting or deputation within the country or abroad, the AGPR or the department of Federal Government Servant, as the case may be, shall not release the house rent allowance or issue Last Pay Certificate till issuance of NOC from the Estate Office. Rule 15 (4) *ibid* stipulates that an allottee who was transferred to an autonomous organization at the same station may retain the accommodation under

intimation to the Estate Office till such time as that organization provides him alternate accommodation or for a period of five years whichever is earlier. The total monthly house rent allowance payable to the allottee or his rental ceiling, which-ever is more, will be payable into Government treasury by the organization. Rule 26 (1) *ibid* further stipulates that the allottee of an accommodation shall be charged normal rent at the rate of 5% of the emoluments as defined in clause (e) of Rule 2.

It was observed that an officer of BPS-20 joined PTA on deputation basis as Director General (Law) on 16th April, 2014. The Last Pay Certificate (LPC) of the officer issued by AGPR did not show receipt of house rent allowance which indicated that the officer was residing in the Government accommodation as 5% House Rent Charges had been deducted upto 30.04.2014. PTA management paid House Rent Allowance to the officer @ Rs 40,053 per month despite the facts narrated above which resulted into unlawful payment of Rs 1.642 million from May 2014 to September 2017. Further, house rent charges @ of 5% of the emoluments amounting to Rs 87,000 for the year 2016-17 were also not deducted as detailed below:

Sl. No.	Description	Period	Total Months	Monthly Rate	Amount (Rs)
01	House Rent Allowance	05/2014 to 09/2017	41	40,053	1,642,173
02	House Rent Charges @ 5% of monthly emoluments	01.7.2016 to 30.06.2017 * (145,015 x 5%)	12	7,250	87,000
TOTAL					1,729,173

* Calculation of 5% charges was only made for 2016-17 because the previous pay bills and basic pay of the officer was not available.

Audit was of the opinion that grant of house rent allowance to non-entitled employee was violation of rules.

The matter was reported to PAO and management in July to September, 2017. It was replied that the officer had opted for PTA's

pay package as admissible to him under Employees Service Regulations 2008. The deputationists were liable to pay installment of loans, benevolent fund contribution, GPF etc. to their parent offices. Therefore, no deduction was made on account of house rent allowance. The reply was not acceptable as the officer was residing in Government accommodation, hence, the payment of House Rent Allowance (HRA) was not admissible.

The DAC in its meeting held in December, 2017 took serious notice and directed PTA management to provide record regarding depositing of amount of HRA and 5% house rent charges by the officer into Federal Treasury or estate office.

Audit recommends that amount may be recovered and deposited in the Government Treasury besides fixing responsibility for such payment.

(DP No.76)

1.5.9 Unauthorized payment due to amendments in contract - Rs 1.250 million

According to Regulation 115 (b) of PTA Employees Service Regulations 2008, the appointment of consultant shall be for a certain specific period and for performance of the specific task / assignment for which their services have been hired and against lump sum / variable emoluments and shall purely be governed by the terms and conditions of the agreement.

It was observed that a candidate was appointed as law consultant on 24th February, 2014 against fixed emoluments of Rs 200,000 per month. A modification was made in the contract on 9th April, 2014 and 25th April, 2014 (just after two months) that the consultant would be paid a fee of Rs 100,000 per case dealt by him on behalf of PTA. Actual costs incurred while handling cases would also be paid / reimbursed by PTA as determined / approved by the Authority.

Audit was of the view that the amendments in appointment contract before expiry of first tenure were against the Rules and Regulations. Hence, payment of Rs 1.250 million on account of legal fee was unauthorized.

The matter was reported to PAO and management in July to September, 2017. It was replied that the consultants were engaged as per section 10 (2) (C) of the Act under regulation 115 of the Act. The terms and conditions of the consultant were determined with the approval of the Authority. Similarly, the amendments were made in the interest of the organization and these terms & conditions were mutually agreed by both PTA and consultant. The reply was not tenable since the terms and conditions offered to the consultant showed fix remuneration which was accepted by him at the time of appointment.

The DAC in its meeting held in December, 2017 did not agree with the reply and pended the para till the recovery of the amount paid in addition to fixed remuneration.

Audit recommends that amount paid in addition to fixed remuneration may be recovered under intimation to Audit.

(DP No.69)

1.5.10 Irregular deputation and excess payment of pay & allowances - Rs 1.106 million

According to Regulation 19 (3) & (4) the deputationist will be entitled to pay, all benefits, facilities and allowances permissible to an employee on regular basis in the same pay scale.

It was observed that an official of Directorate of Agriculture (Research) and cooperative department, Government of Baluchistan was taken on deputation w.e.f 18th September, 2012 initially for two years. The official was Computer Operator in BPS-15 whereas PTA had taken the official on deputation in BPS-17 and posted him as Assistant Director (Enforcement). In some documents available in the

file, the official was shown as computer operator (BPS-15) and in others, was shown as stenographer (BPS-15) and then upgraded as Assistant Private Secretary (BPS16). A committee was constituted by the Chairman PTA vide letter dated 29th January, 2015 in the instant case but the same was de-notified vide letter dated 27th April, 2015 without arriving at any conclusion. The period of deputation was further extended by the Chairman PTA and last extension was granted w.e.f 19.09.2016 to 18.09.2017. The official was also paid the pay **and** allowances of Assistant Director (BPS-17) (EG-II) instead of (BPS-15) (SG-V). This resulted into an excess payment of Rs 1,105,950.

Audit was of the view that deputation of a lower scale employee of provincial government in PTA to upper scale was unjustified and irregular.

The matter was reported to PAO and management in July to September, 2017. It was replied that hiring of employee was made on deputation basis in accordance with the provision under regulation 19 of PTA Employees Service Regulations 2008. He joined PTA on 19-09-2012 as per the then usual terms & conditions of PTA service regulations. However, after amendment made by the authority vide orders dated 04-01-2016, the extension in deputation period was made and the officer was currently receiving pay as per his LPC plus 20% deputation allowance. The reply was not acceptable as the deputationist was entitled for all benefits, facilities and pay and allowances of the pay scale he was holding in his parent department whereas the official was paid pay and allowances of Assistant Director (BPS-17/EG-II) instead of (BPS-15/SG-V).

The DAC in its meeting held in December, 2017 directed PTA to conduct an inquiry within 15 days and share the report with audit under intimation to Cabinet Division.

Audit recommends that matter may be investigated for facts finding besides fixing of responsibility against those who were at fault.

(DP No.72)

1.5.11 Unjustified grant of NOC for merger of Mobilink and Warid

According to Rule 11 of Telecommunications Rules 2000, a license granted under the Act and these Rules, shall be personal to the licensee and shall not be assigned, sub licensed to or held on trust for any person, without the prior written consent of the Authority. Rule 11 (4) stipulates that a permission given by the Authority under sub-rule (3) shall include the requirement that the licensee shall take all necessary actions to ensure the continuous and uninterrupted use of that part of the licensee's licensed telecommunication system being sold, pledged, mortgaged or charged. Section 5 (2) (a) of the Pakistan Telecommunication (Re-organization) Act, 1996 further states that the Authority shall grant and renew licenses for any telecommunication system and any telecommunication service on payment of such fees as it may, from time to time specify.

It was observed that PTA received notices on 15th December, 2015 from M/s Pakistan Mobile Communications Limited (PMCL) and Warid Telecom for the change in substantial ownership interest and merger of both companies. Resultantly, PTA issued NOC on 23rd May, 2016. Following irregularities were observed:

- i. PTA management allowed M/s Warid for provision of 4G/LTE services without having subject license and participation in NGMS auction. At the time of merger under heading Financial Analysis PTA mentioned that merger of PMCL and Warid would result in the availability of 4G/LTE service to approximately 37 million subscribers of Mobilink who previously did not have access to 4G/LTE. This was an undue favour to PMCL.
- ii. PTA allowed to merge the services of both companies but the license was not merged. This showed that PMCL was enjoying two licenses and spectrums without paying any additional cost /

fee. Further, no commitment from merged companies was obtained for renewal of Warid license after expiry in 2019 which deprived the government of renewal fee.

- iii. The record further revealed that M/s CMPAK (Zong) launched a complaint vide letter dated 16th March, 2017 by highlighting various aspects of the merger like, quality of service; re-farming of spectrum and post-merger effects. It was stated that M/s PMCL was violating S.10(1) of Competition Act and clause 3.9 of competition guidelines and indulging in deceptive marketing practices. Instead of addressing the complaint PTA responded that PMCL could advertise for any service permissible under its license and PTA was vigilant about its responsibilities.

Audit was of the view that granting of NOC by PTA for merger of Mobilink and warid was undue favour to the referred telecom operators and was tantamount to scanty role of Authority as regulator of telecom industry in Pakistan

The matter was reported to PAO and management in July to September 2017. It was replied that the licenses issued by PTA were technology neutral and up-gradation of modern system was allowed under the Act, Rules, Policy and license terms and conditions. The licenses of both the companies would expire in 2019 and 2022. Once the companies got merged, the license of both companies would be transferred to the merged company. Technically, there was no issue in case licenses remained separate or consolidated as one license. PTA imposed certain conditions on PMCL regarding tariffs, facility to retain their pre-merger packages and quality of service. The reply was not acceptable as the permission was granted to PMCL for allowing LTE services without paying any fee and merger was against the provisions of the Act. Further, the issue raised by M/s Zong was also not addressed properly. M/s Zong in August 2017 again asked about the licenses of merged companies but no response was given.

The DAC in its meeting held in December, 2017 pended the para and directed PTA to explain its position on this technical issue.

Audit recommends that matter may be investigated for facts finding besides fixing responsibility for granting NOC in violation of the provisions of the Act.

(DP No.207)

1.6 Performance

1.6.1 Undue favour to Mobilink during auction of NGMS - USS 295 million (Pak Rs 30,680 million)

According to section 6 (e) of Pakistan Telecommunication (Re-organization) Act, 1996, Authority in exercising its functions and powers under this Act, shall ensure that fair competition in the telecommunication sector exists and is maintained. The Authority shall provide level playing field to all telecom service providers. Para 4.4.1 of Cellular Mobile Policy 2004 states that the Radio Spectrum is a valuable public resource belonging to the State and must be used in the public interest.

The record of NGMS auction 2017 and policy directives issued by the Federal Government dated 27th March, 2017 was examined. Four mobile operators (M/s PMCL, Telenor, Zong and Ufone) made a joint representation vide letter dated 17th April, 2017. The operators requested the Minister of State and the Authority for a time span of at least 6-8 weeks and for conducting the auction around 30th June, 2017. The requests of the operators were based on the fact that approval from the Board of Directors was to be sought for participating in the auction. PTA did not consider the request of the operators and finalized the auction. Resultantly only one bidder (M/s PMCL) submitted application and showed willingness to buy the spectrum at base price.

Audit was of the view that PTA failed to receive competitive rates and deprived other operators from a level playing field.

The matter was reported to PAO and management in July to September, 2017. It was replied that PTA had conducted several transparent auctions from 2014 onwards. NGMS 2017 auction was also conducted likewise. In order to facilitate the operators the timeline during NGMS 2017 was extended on request of operators from 5th to 17th May, 2017. The reply was not acceptable because the time was not extended as requested by the operators.

The DAC in its meeting held in December, 2017 pended the para and directed PTA management to arrange a presentation on the technical issues to proceed further.

Audit recommends that matter of non-considering the request of the operators may be investigated for facts finding.

(DP No.208)

1.6.2 Non/delayed filing and non-pursuance of recovery petitions - Rs 5.219 million

According to para 4.1 of license, payment of fees, and the licensee shall pay the initial license fees to the Authority as per schedule given by the Authority. Further, section 30 of Pakistan Telecommunication (Re-organization) Act, 1996, states that all fees, fines or other amounts due or payable to the Authority may be recovered as arrears of land revenue.

During test check of recovery petition files for the year 2016-17 it was observed that an amount of Rs 5.219 million was recoverable from various telecom operators for which Recovery Petitions (RPs) were filed by PTA. The follow up / pursuance of recovery petitions were slow as detailed in the Annex-II of this report.

Audit was of the view that non /delayed filing and non-pursuance of recovery petitions by PTA was tantamount to poor performance being regulator of telecom industry.

The matter was reported to PAO and management in July to September, 2017. It was replied that RPs could not be signed due to some policy issue and lack of mandatory license termination letter, show cause notice, hearing notice etc. The delays in filing RPs were due to legal lacunas. The reply was not acceptable because there were no legal lacunas. The RPs were approved by the Authority but could not be filed due to disagreement between RA, Finance and Licensing Divisions. This showed inefficiency of the PTA management and non-recovery of the government dues. Further, no efforts were made for recovery after filing of recovery petition except forwarding to zonal offices. In one case the RP was approved in December 2011 by the Authority but filed in December 2016 but no action was taken against the persons responsible for delay as approved by the Authority on 29.12.2016.

The DAC in its meeting held in December, 2017 directed to get the recovered amount verified from audit. DAC further directed to provide reasons for delay in filing of recovery petitions.

Audit recommends that matter may be investigated with a view to fix responsibility besides recovering the balance amount.

(DP No.79)

1.7 Internal Control weaknesses

1.7.1 Loss due to un-lawful usage of 4G services in AJK - Rs 61,950 million

According to Section 6 of Pakistan Telecommunication (Re-organization) Act, 1996 the Authority in exercising its functions and powers under the Act, shall ensure that – (a) rights of licensees are duly protected; (b) all of its decisions and determinations are made promptly, in an open equitable, non-discriminatory, consistent and transparent manner; and (e) fair competition in the telecommunication

sector exists and is maintained. Section 20 further states that no person shall establish, maintain or operate any telecommunication system or provide any telecommunication service for which he has obtained a license under this Act.

During audit it was observed that PTCL and SCO launched provision of 4G / LTE services to its customers / public at large in AJK & GB without getting / buying spectrum and valid license of 4G / LTE services. It is worth mentioning that PTA had yet to start the auction process of spectrum of 4G / LTE service in AJK & GB. M/s CMPAK (Zong) had also lodged a complaint vide letter dated 14th June, 2017 that such a launch would be discriminatory and anti-competitive. This resulted into loss to national exchequer of Rs 61,950 million approximately (the last auction price of 4G spectrum of Mobilink).

Audit was of the opinion that launch of 4G / LTE services by PTCL and SCO without getting license from PTA tantamount to weak controls of PTA which lead to loss to the national exchequer.

The matter was reported to PAO and management in July to September, 2017. It was replied that PTCL acquired spectrum for 1900 MHz band in the year 2015-16 after due auction process. The licensee had launched LTE based services within the scope and assigned spectrum after approval of the Authority. SCO was granted temporary permission by FAB for test and trial purpose with certain terms and conditions and on non-commercial basis. PTA also took up the case with SCO for clarification regarding commercial services under trial period as per the advertisements. It was confirmed by SCO that non-commercial services to customers were offered for trial purpose to gauge the network availability and its proper deployment. No documentary evidence in support of the reply was furnished. Launch of such services was discriminatory and anti-competitive as also highlighted by M/s CMPAK (ZONG).

The DAC in its meeting held in December, 2017 pended the para for further examination and detailed presentation to DAC being technical issue.

Audit recommends that matter should be investigated for facts finding and fixing of responsibility for the irregularity.

(DP No.82 & 83)

1.7.2 Un-authorized re-farming of spectrum and permission of 4G / LTE services - Rs 12,012 million

According to para 8.5 of Telecommunication Policy 2015 PTA / PEMRA in consultation with FAB will propose a re-farming framework to be approved by the Federal Government (MoIT). The spectrum re-farming framework will be based on international best practices and market demand. The framework will be a combination of administrative, financial and technical measures. Federal Government (MoIT) in consultation with PTA / PEMRA and FAB will decide to re-farm any spectrum and such decision will be effected through policy directives.

It was observed that the Authority allowed M/s Telenor for re-farming of 5.5 MHz out of 8.8 MHz in 1800 MHz without developing a re-farming framework as stated above. PTA neither proposed any framework nor gave the cost / financial impact while granting permission for the re-farming. Further, PTA management allowed M/s Telenor for provision of 4G / LTE services without recovery of cost. M/s Telenor did not participate in the auction of 1800 MHz spectrum held on 23rd April, 2014, which was won by M/s CMPAK (Zong) at the cost of US\$ 210 million for 10 MHz. This resulted into loss of Rs 12,012 million (US\$ 115.5x10⁴ per US\$).

Audit was of the view that re-farming of spectrum and launch of 4G / LTE services by Telenor without recovery of cost was tantamount to weak internal controls which lead to loss to national exchequer.

The matter was reported to PAO and management in July to September, 2017. It was replied that PTA neither assigned nor allowed any new spectrum of 5.5 MHz as highlighted. Licensee, while planning its network had carried out in-band carrier migration in its existing spectrum assignment. Such change and modernization of telecommunication systems and networks by the licensee cannot be compared with auction process and hence no loss to national exchequer was caused. The reply was not acceptable as PTA had auctioned 1800 MHz in 2014 and M/s Telenor did not participate in the subject auction. Hence, usage of 5.5 MHz for LTE services without any fee was illegal. Further, during discussion in 40th FAB Meeting Signal Officer in Chief (SO-in-C) pointed out the illegality of M/s Warid and Telenor's offering 4G (LTE) services without participating in auction process.

The DAC in its meeting held in December, 2017 pended the para for detailed deliberation.

Audit recommends that matter may be investigated for facts finding under intimation to Audit.

(DP No.86)

1.7.3 Unauthorized grant of NOC to M/s PMCL - Rs 4,724.331 million

According to Para 8.17.3 of Telecommunications Policy 2015, merger and acquisition will be allowed subject to having met all license obligations including payment and roll out obligations. Para 7(v) of the decision of the Authority states that the determination is subject to clearance of all outstanding dues by the parties. Para 7 (xv) of the decision of the authority further stipulates that the parties shall be responsible for the clearance of all tax liabilities, in any form, as a consequence of this transaction (acquisition as well as merger), as and when required by FBR under the relevant / applicable tax laws. The parties shall indemnify PTA along with submission of acceptance of the order of the Authority being given through this determination.

It was observed that PTA issued NOC for merger of M/s PMCL (Mobilink) and M/s Warid Telecom without considering the comments of the stakeholders and clearance of liabilities by the merged entities in violation of the above. MoIT gave its analysis with the proposal vide letter dated 9th May, 2016 that PTA may, as the regulator, conduct due financial diligence and consider all legal element (including any subjudice matters) applicable to subsidiaries and sister concerns belonging to the same holding group in the context of regulatory recoveries and decide the merger case accordingly. Similarly, Federal Board of Revenue (Custom wing) informed vide letter dated 16th May, 2016 that evasion of duty and taxes in a case of mis-declaration on import of telecommunication infrastructure equipment was outstanding against M/s Warid. It was further stated that M/s Warid Telecom was required to pay the said outstanding liability upfront, alternatively M/s PMCL should furnish an undertaking to FBR that they shall be liable to pay any outstanding duties/taxes against M/s Warid Telecom. Detail of outstanding dues is as under:

Sl. No.	Description	Amount (Rs)
PTA's outstanding dues		
01	Mobilink's Link Dot Net Owes	641,993,036
02	Wateen Telecom and Wateen WiMAX Owes	3,769,781,592
FBR outstanding dues		
03	Evasion of duty and taxes	55,055,895
04	Late Payment Charges	2,500,000
05	Evasion of duty and taxes adjudication	255,000,000
TOTAL		4,724,330,523

In addition to the above, Capital Development Authority (Directorate of Municipal Administration) also informed vide letter dated 25th January, 2016 that M/s Warid installed 36 Nos BTS towers in Islamabad without prior approval from CDA and in violation of the agreed BTS policy, for which CDA Board took strict notice and imposed penalty @ 500% of the license fee under section 46 & 46B of CDA ordinance, 1960. Hence, in the interest of public exchequer the

issuance of NOC from PTA in respect of merger should be subject to clearance of M/s Warid's liabilities against CDA.

Audit was of the view that granting of NOC for merger to M/s Mobilink and M/s Warid without addressing the reservations of stake-holders was due to weak internal controls.

The matter was reported to PAO and management in July to September, 2017. It was replied that after comprehensive analysis PTA imposed certain conditions on PMCL and Warid with respect to their commercial arrangements. M/s Warid and Mobilink had cleared their dues as per their licenses. As regard to FBR and CDA, PTA put clear conditions on the parties for the clearance of all tax and other liabilities. The reply was not acceptable because the proposal of MoIT with regard to financial diligence and considering all legal elements (subjudice matters) applicable to subsidiaries and sister concerns belonging to the same holding group in the context of regulatory recoveries were not addressed. FBR and CDA requested the Authority for upfront payments but the same was not addressed.

The DAC in its meeting held in December, 2017 pended the para and directed PTA to make a detailed presentation to DAC on the issue.

Audit recommends clearance of previous liabilities and fixation of responsibility for grant of NOC for merger.

(DP No.84)

1.7.4 Loss due to illegal termination of calls and non-recovery - US\$ 9.365 million (Pak Rs 973.960 million)

According to section 23 (1) of the Act, where a licensee contravenes any provision of this Act or the rules made there under or any term or condition of the licence, the Authority or any of its officers not below the rank of Director may by written notice require the licensee to show cause within thirty days as to why an enforcement

order may not be issued. Section 23 (3) states that where a licensee fails to respond to the notice; or satisfy the Authority about the alleged contravention; or remedy the contravention within the time allowed by the Authority, or any of its officers may by an order in writing and giving reasons (i) levy fine which may extend to three hundred and fifty million rupees; or (ii) suspend or terminate the license, impose additional conditions or appoint an Administrator to manage the affairs of the licensee, but only if the contravention is grave or persistent.

It was observed that PTA served a show cause notice to M/s Wise Communication on 15th January, 2014 stating that the operator illegally terminated (transferred) 106.42 million minutes on network of mobile operators and PTCL bypassing the international gateway exchanges. As a result, the operator did not pay the dues on account of Access Promotion Contribution for USF causing loss of US\$ 9.365 million (Pak Rs 973.960 million) to national exchequer. PTA later on withdrew its show cause notice on 27th March, 2014 from date of its issuance without recovery of the amount.

Audit was of the view that non-recovery of cost from the telecom operator was tantamount to weak controls of PTA over telecom operators which lead to loss to the national exchequer.

The matter was reported to PAO and management in July to September 2017. It was replied that the Authority issued show cause notice (SCN) which was challenged by the licensee and contempt petition was filed against the Authority. Hence, in the light of court orders, the Authority was restrained from taking any coercive action against the licensee. The recovery of the amount alleged by PTA depends on fate of criminal proceeding and is subject to court decision. The reply was not acceptable because SCN should have been defended in the Court.

The DAC in its meeting held in December, 2017 directed PTA to provide final status of criminal proceeding and recovery of the

amount involved to Audit for verification.

Audit recommends that compliance of DAC directive may be made in letter and spirit.

(DP No.87)

1.7.5 Illegal use of 3G services by Ufone and non-issuance of enforcement orders - Rs 513.448 million

According to section 23 of Pakistan Telecommunication (Re-organization) Act, 1996 where a licensee contravenes any provision of this Act or the rules made there under or any term or condition of the license, the Authority or any of its officers not below the rank of Director may by written notice require the licensee to show cause within thirty days as to why an enforcement order may not be issued; levy fine which may extend to three hundred and fifty million rupees.

It was observed that FAB reported to PTA that M/s Ufone was using 895.3 – 899.5 / 940.5 MHz (4.2 + 4.2 MHz) out of its assigned 2 x 7.6 MHz for UMTS (3G) service in Islamabad and Rawalpindi. It was further highlighted that it was not live network testing; rather commercial services were being extended to its 3G customers for 03 months. Moreover, certain security concerns were also raised by the Security Agencies regarding the sale of illegal 3G use by Ufone. Therefore, PTA was requested for immediate enforcement action against the said illegal use of 900 MHz band for 3G services.

PTA management neither issued any enforcement order nor initiated any action against the illegal user but informed FAB to take appropriate action. Due to this the operator kept earning revenue by utilizing illegal services. This resulted into loss to national exchequer of Rs 513.448 million as detailed below:

Base Price of 850 MHz band [(824-834 (uplink), 869-879 MHz (downlink)]	US\$ 395 million
Normally Licence period is for 20 years (For one Year cost 395/20) =	US\$ 19.75 million

Cost for illegal use of 3 Months (19.75/12 x 3) =	US\$ 4.937 million
Pak Rupees at conversion rate of Rs 104/- per US\$ (4.937 x 104) =	Rs 513.448 million

Audit was of the opinion that non-issuance of enforcement orders for illegle use of 3G services by Ufone was tantamount to weak controls of PTA being regulator of telecom industry.

The matter was reported to PAO and management in July to September, 2017. It was replied that upon receipt of FAB report the licensee was warned not to launch commercial services until the case was approved. Upon Quality of Service (QoS) report supported by FAB, necessary permission was granted to Ufone after fulfillment of all requisite formalities as the licences were technology neutral and up gradation of modern system was allowed under the Act. The amount calculated by the Audit was based on 850 MHz whereas Ufone was neither assigned nor allowed to use extra spectrum. The reply itself stipulates that Ufone un-authorizedly launched commercial services upon which warning was issued. As regards calculation of amount, Audit used the benchmark of last auction of 850 MHz spectrum for calculation.

The DAC in its meeting held in December, 2017 pended the para and directed PTA to give a presentation to DAC about the instant case.

Audit recommends that matter may be investigated for facts finding under intimation to Audit.

(DP No.85)

1.7.6 Temporary misappropriation - Rs 9.783 million

According to Para 10 of PTA approved Accounting Procedure all receipts should be deposited in the main collection account maintained with National Bank, Civic Center Islamabad.

PTA Bank statements as on 30th June, 2017 showed a balance of

Rs 106.786 million in DDO Account on account of un-presented cheques. The said balance was reduced to Rs 9.783 million on 31st July, 2017.

It was noticed that most of the outstanding cheques (including bearer cheques) pertained to PTA employees, which were retained by Payroll & Cash (P&C) wing due to un-known reasons. This action of the management falls under temporary mis-appropriation.

The matter was reported to PAO and management in July to September, 2017. It was replied that PTA issued cheques to various vendors / employees on account of expenses / loans till 30th June, 2017. All the cheques were handed over and complete record was provided to Audit. However, cheques amounting to Rs 9,783,191 were still presentable by the vendors. The reply was not acceptable because all the cheques were not handed over to the concerned vendors / employees.

The DAC in its meeting held in December, 2017 took serious notice of the issue and directed PTA for verification of record within 15 days.

Audit recommends that matter may be investigated for facts finding.

(DP No.192)

1.7.7 Anomalies in PTA Employees Service Regulations & misuse of powers

Study of PTA employees service regulations issued from time to time revealed that PTA sent its Employees Service Regulations 2000 on 23rd August, 1999 to Establishment Division for approval through Ministry of Communications. The Establishment Division had approved the PTA Employees Service Regulations 2000 with certain modifications / amendments vide letter No. 6/5/98-R-3 dated 7th February 2000. These approved regulations were circulated by the

Ministry of Communication vide Letter No. 1(6)/98-PTC.1 dated 9th February, 2000.

PTA incorporated radical changes in the Service Regulations 2000 and notified the same as PTA Employees Service Regulations 2004. The Authority neither notified the approved regulations in the Gazette nor repealed the earlier regulations while introducing the Employees Service Regulations 2004. Due to non-cancellation/ non-repealing the Regulations 2000, PTA faced a number of employees related court cases. Audit had made comparative analysis of some of PTA Employees Service Regulations and pointed out variations and violations of the Act / regulations as detailed in the Annex-III of this report.

The analysis revealed that PTA never reviewed its Employees Service Regulations in the light of Federal Government Rules and its previous regulations before making amendments from time to time.

Audit contends that amendments in the Regulations should be generic, logical and meaningful and not persons specific.

The matter was reported to PAO and management in July to September, 2017. It was replied that the Authority issued regulations which were duly notified and kept in view all rules, orders, regulations and circulars having the effect of law made or issued. The regulations had never been person specific. The reply was not tenable as the analysis made by audit clearly showed that amendment in the regulations were made to oblige specific officers and officials. A number of amendments showed the elements of misuse of autonomy by the Authority.

The DAC in its meeting held in December, 2017 directed PTA to implement the audit recommendations after making them part of revised service regulations and get them verified from Audit.

Audit recommends that matter should be investigated in the

light of audit observations and detailed comprehensive regulations be formulated and notified keeping in view the provisions of Government Rules to avoid anomaly and frequent amendments.

(DP No.194)

1.8 Receivables

1.8.1 Non-recovery of outstanding dues from telecom operators - Rs 669.746 million

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

PTA management failed to recover an amount of Rs 669.746 million on account of USF Charges and R&D contributions from the operators during 2016-17. Detail is given below:

Sl. No.	Description	Amount (Rs)
01	USF Contributions	667,680,865
02	R&D Contributions	2,065,011
03	USF (AJK & NAs)	0
TOTAL		669,745,876

Audit was of the view that due to weak receivable management, PTA could not realize its outstanding dues.

The matter was reported to PAO and management in July to September, 2017. It was replied that efforts were underway to recover the amount. However, no recovery particulars were provided to Audit till finalization of this report.

The DAC in its meeting held in December, 2017 directed PTA management to get the recovered amount verified from audit within 15

days and efforts be made to recover the balance amount.

Audit recommends that amount may be recovered under intimation to Audit.

(DP No.90)

1.8.2 Less realization of revenue from telecom operators - Rs 232.218 million

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

Test check of demand notices issued to the operators revealed that PTA management issued these demand notices by deducting Federal Excise Duty/Sales Tax from gross revenue for the calculation of Annual Regulatory Dues in violation of the above. This resulted into less realization of revenue of Rs 232.218 million. Detail is as under:

Sl. No.	Name of Operator	Period	Amount less realized (Rs)
01	M/s Multinet Pakistan Pvt. Ltd	December 31, 2016	1,543,335
02	M/s Cyber internet services Ltd	December 31, 2016	11,407,592
03	M/s Nayatel Ltd	December 31, 2016	25,233,154
04	M/s Linkdot net Ltd	December 31, 2016	38,746,607
05	M/s CM Pak Ltd.	December 31, 2016	155,287,375
TOTAL			232,218,063

Audit was of the opinion that due to weak receivable management, PTA could not realize its dues as per clauses of license from telecom operators.

The matter was reported to PAO and management in July to

September, 2017. It was replied that similar nature para of Audit Report 2014-15 was discussed in DAC meeting held on 9th August, 2017 and DAC directed PTA to amend the license conditions embodying allowable deductions to resolve the issue. Since amending the license was not practical, PTA was in process of amending PTA Functions & Powers Regulations, by including the definition of Gross Revenue. The reply was not tenable as the regulations of PTA and license conditions, clearly define the way of calculation of fee on Annual Gross Revenue and do not describe the gross revenue after deducting the FED/Sales Tax.

The DAC in its meeting held in December, 2017 directed PTA management to provide the copy of amendment in the regulations and license conditions to audit for verification.

Audit recommends that compliance of the previous DAC / PAC directives may be made and got verified from Audit.

(DP No.92)

1.8.3 Non-recovery of annual regulatory dues from telecom operators - Rs 43.287 million

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

The receivable ledgers provided to Audit showed recoverable of Rs 102.001 million on account of Annual Regulatory Dues from the operators during 2016-17. During discussion it was informed that an amount of Rs 58,714,033 had already been recovered but the ledgers

were not up-dated and balance recoverable was Rs 43,287,221.

Audit was of the view that due to weak receivable management, PTA could not realize its outstanding dues.

The matter was reported to PAO and management in July to September, 2017. It was replied that efforts were underway to recover the balance amount. The reply was not satisfactory as the receivable ledgers were not updated timely and complete recovery of the receivable had not been effected. This issue had repeatedly been taken up with the PTA and DAC in various paras had directed for provision of up dated record but all in vain.

The DAC in its meeting held in December, 2017 directed PTA management to pursue the court cases vigorously, recover the amount and get it verified from audit.

Audit recommends that balance amount Rs 43,287,221 may be recovered and got verified from audit besides fixing responsibility for non-updation of the receivable ledgers.

(DP No.91)

CHAPTER-2

FREQUENCY ALLOCATION BOARD

2. FREQUENCY ALLOCATION BOARD

2.1 Introduction

Frequency Allocation Board (FAB) established on 1st January, 1996 under the Pakistan Telecommunication (Reorganization) Act, 1996, is placed under the administrative control of the Cabinet Division and funded by PTA. Section 42 of Telecommunication (Reorganization) Act 1996 provides for 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.
- monitor the sphere and determine illegal users of frequencies and report to PTA for action under the Act.

2.2 Comments on Budget and Accounts

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

2.3 Status of Compliance with PAC Directives

FAB, Cabinet Division

Following table shows the compliance status of PAC directives

SL No.	Audit Year	Total Paras	Total Directives	Compliance		%age
				Received	Not received	
1	1997-98	02	02	02	00	100
2	1998-99	05	05	05	00	100
3	1999-00	04	04	04	00	100
4	2000-01	03	03	02	01	67
5	2002-03	08	08	08	00	100
6	2003-04	05	05	04	01	80
7	2004-05	05	05	04	01	80
8	2005-06	10	10	10	00	100
9	2006-07	02	02	02	00	00
10	2008-09	06	06	04	02	67
11	2009-10	07	07	06	01	86
12	2010-11	06	06	05	01	83
13	2013-14	10	10	07	03	70

AUDIT PARAS

2.4 Irregularity and non-compliance

2.4.1 Unjustified award of additional frequency to M/s CM Pak (ZONG) - US\$ 295 million (Rs 30,975 million)

According to Regulation 6 (a) (ii) of FAB Technical Regulations, 2015 the Board has taken over the functions of erstwhile Pakistan Wireless Board. The Board is responsible to coordinate assignment of frequencies with other Boards when the frequencies are required for channels working to places outside Pakistan or where interference to channels operated by other authorities is likely to occur. Regulation 12 further states that the Board shall assign frequency to the applicant once the formal application for the purpose received by the Board through the PTA.

It was observed that the Board directed PTA and FAB in its 40th meeting held on 3rd February, 2015 to address the issue of temporary assignment of additional spectrum to M/s CM Pak (Zong). The said issue was again discussed in 41st FAB meeting dated 19th February, 2016 and the Board constituted a committee to resolve the issue. The committee recommended that M/s Zong may be allowed additional assignments in 1800 MHz Band until the expiry of their license in October 2019. FAB allocated the additional frequency spectrum on 19th February, 2016 in 1800 MHz band to M/s Zong without auction or charging for the assigned spectrum. This resulted in loss to national exchequer of Rs 30,975 million. (the loss was based on the last auction of the same spectrum in 2017).

Audit was of the view that award of frequency to M/s CM Pak was irregular and unlawful which resulted into loss to national exchequer.

The matter was reported to PAO and management in September 2017. It was replied that M/s ZONG was allocated temporary additional

spectrum in 1800 MHz band in lieu of its interfered spectrum in 900 MHz. The cross border CDMA signals spill over into Pakistan causing interference in the licensed spectrum of M/s ZONG. The Board had authorized M/s ZONG to utilize the temporary additional assignments till the expiry of its license in October 2019 in the cross border interference areas of Punjab and Sindh. The reply was not acceptable as FAB was responsible to provide interference free spectrum instead of allocating additional frequency without recovery of cost. Allocation of additional frequency to M/s Zong till October 2019 without charging was an undue favour to the operator.

The DAC in its meeting held in December, 2017 pended the para and directed PTA / FAB to give a presentation to DAC within a week about instant matter.

Audit recommends that matter should be investigated for facts finding regarding allocation of additional spectrum without recovery of cost.

(DP No.101)

2.4.2 Excess payment of rent - Rs 1.000 million

According to Ministry of Housing and Works O.M No.F/2(1)/2000-Policy dated 21.09.2006 and 14.04.2008 the procedure and rates for hiring of office accommodation at Islamabad and Rawalpindi has been fixed. From April 14, 2008 it was allowed to pay 25% extra rent for high rise centrally air-conditioned buildings. Para 2(IV) of the above O.M states that cases of buildings proposed to be hired beyond prescribed enhanced rates will be referred to Finance Division (Regulations Wing) through FA's Organization after completion of procedural formalities as per Finance Division O.M No.8 (69) R-14/83-2001-452 dated 18.10.2001.

Frequency Allocation Board (FAB) hired a single storey building situated at Plot No.112, H-10/4, Islamabad covering

19,794.12/Sq.ft @ Rs 46.875/Sq.ft for establishment of Headquarter office. Due to hiring of building in excess of the admissible rates, an excess payment of Rs 1,000,296 was made as detailed below:

Sl. No.	Vr. No. & date	Period	Rate Per Sq.ft			Covered Area	Amount (Rs)
			Paid	Due	Excess		
01	027/16.08.16	01.01.16 to 30.06.16	46.875	30	16.845	19794.12/Sq.ft	333,432
02	Nil	01.07.16 to 31.12.16	46.875	30	16.845	19794.12/Sq.ft	333,432
03	164/30.06.17	01.01.17 to 30.06.17	46.875	30	16.845	19794.12/Sq.ft	333,432
Total Excess Payment							1,000,296

Audit was of the view that payment of excess rent was against the rules.

The matter was reported to PAO and management in September 2017. It was replied that FAB HQ was shifted to this building owned by PTA w.e.f 1st January, 2001 and the last agreement for hiring of building on monthly rent of Rs 742,280 per month with PTA got expired in December, 2015. Thereafter, PTA intimated that as per prevailing GoP Rules (Islamabad Rent Restriction Ordinance 2001), 25% increase in existing rental rates were applicable after expiry of 03 years. Accordingly, FAB management executed a new agreement for hiring of building @ Rs 927,849 with PTA. The reply was not acceptable because the rent was paid in excess of the rates permissible by Ministry of Housing and Works for Islamabad. Further, 25% increase was meant for high rise centrally air-conditioned buildings whereas FAB HQ Building had single storey and was not centrally air conditioned.

The DAC in its meeting held in December, 2017 directed FAB management to adjust the excess payment and get it verified from Audit.

Audit recommends that excess amount be recovered and got verified from Audit.

(DP No.97)

2.5 Performance

2.5.1 Non-calculation and non-recovery of cost of allocated backhaul spectrum

According to para 4.4.4 of De-regulation policy 2003, all entities using spectrum shall be charged a fee for spectrum. The fee will be approved by the Government of Pakistan and recovered by Frequency Allocation Board from users of frequency spectrum.

It was observed that Frequency Allocation Board (FAB) had allocated backhaul frequencies to five mobile operators but neither the cost of allocated spectrum was calculated nor recovered.

Audit was of the view that non-calculation and non-recovery of cost on account of allocated backhaul spectrum was loss to national exchequer.

The matter was reported to PAO and management in September, 2017. It was replied that the recovery of license fee or spectrum fee from any telecom operator in Pakistan and AJK & GB was the domain of PTA and not of FAB. PTA may kindly be approached for any such details. The reply was not acceptable. Being custodian of the spectrum, FAB was responsible to recover the cost of spectrum under the de-regulation policy of Federal Government.

The DAC in its meeting held in December, 2017 pended the para and directed PTA / FAB to give a presentation to

DAC within a week about instant matter.

Audit recommends that status of recovery of cost may be obtained from PTA and furnished to Audit to proceed further in the matter.

(DP No.203)

2.5.2 Ineffective Role of FAB on merger of PMCL and Warid

According to Regulation 21 of Frequency Allocation Board Technical Regulations 2015 without the prejudice to the generality of any other law of the Government, unless and otherwise approved by the Board, the right to use the assigned frequencies is non-transferable even in the case if the license issued under the Act and Ordinance has been transferred. Regulation 16 (j) further states that the Board shall have the right, exercisable at any time, to withdraw the allocation of radio frequency spectrum to the licensee, if the Board determines that the licensee does not use the frequency in accordance with the objectives; or does not operate in conformity with the specified terms and conditions of the license, or allow other persons to use the assigned frequency without the permission of the Board or violate these Regulations.

Scrutiny of minutes of 40th Frequency Allocation Board (FAB) meeting revealed that frequency assignments were allocated to CMOs as per the auction results of spectrum for NGMS held by PTA. Signal Officer in Chief (SO-in-C) pointed out that M/s Warid did not participate in the auction and was offering 4G / LTE services. Despite the issue being highlighted, FAB did not take any action on illegal use of 4G /LTE services by M/s Warid as the spectrum allocation and monitoring was the sole responsibility of the FAB. Subsequently PTA issued NOC for merger of M/s PMCL and Warid on 23rd May, 2016 without recommendations of the FAB in violation of the regulations.

Audit was of the opinion that FAB did not play its role as defined in the regulations in best public interest.

The matter was reported to PAO and management in September, 2017. It was replied that the use of Warid's licensed spectrum in 1800 MHz for 4G (LTE) was approved by PTA. The matter was discussed in the 40th FAB meeting on 3rd February, 2015 and the Board did not take any decision. Chairman, PTA being member of Board clarified that the action taken by PTA was in accordance with Section 22 of the Pakistan Telecommunication (Re-organization) Act 1996. FAB HQs circulated the said proposal of PTA to its Members on 7th April, 2016 for their input but PTA issued NOC for Merger on 23rd May, 2016. The reply was not acceptable as recommendations of the Board regarding merger were not available in record. The technical regulations clearly define the mandate of FAB for taking legal actions and revocation of frequency spectrum.

The DAC in its meeting held in December, 2017 pended the para and directed PTA / FAB to give a detailed presentation to DAC being technical issue.

Audit recommends that matter may be investigated for facts finding.

(DP No.204)

2.6 Internal Control Weaknesses

2.6.1 Unlawful launch of 4G services in AJK and GB - US\$ 590 million (Pak Rs 61,950 million)

According to section 20 (1) (2) of Pakistan Telecommunication (Re-organization) Act, 1996 no person shall establish, maintain or operate any telecommunication system or provide any telecommunication service for which he had not obtained a license under this Act. Further, regulation 16 (j) of Frequency Allocation Board Technical Regulations 2015 states that the Board shall have the right, exercisable at any time, to withdraw the allocation of radio frequency spectrum to the licensee, if the Board determines that the licensee does not use the frequency in accordance with the objectives;

or does not operate in conformity with the specified terms and conditions of the license, or allow other persons to use the assigned frequency without the permission of the Board or violate these Regulations.

During audit it was observed that PTCL and SCO launched 4G / LTE services in AJK & GB without getting / buying spectrum and valid license of 4G / LTE services. It is worth mentioning that PTA had yet to start the auction process of spectrum of 4G LTE service in AJK & GB.

FAB failed to take action in the light of provisions contained in FAB Regulations 2015 as well as Pakistan Telecommunication (Re-organization) Act, 1996. The un-lawful usage and launch of 4G / LTE services resulted into loss to national exchequer of Rs 61,950 million (approx).

The matter was reported to PAO and management in September, 2017. It was replied that as per record of FAB, SCO was granted a license by PTA to establish and operate a cellular mobile network in AJK and GB. The Board had allocated spectrum to SCO in 900 and 1800 MHz bands. Likewise PTCL was granted a license by PTA to establish and operate a Wireless Local Loop (WLL) network in AJK and GB. The Board had allocated spectrum to SCO in 1900 MHz Band. PTA may be approached for details of technology used by SCO and its affiliated charges since the subject issue falls under the licensing regime. The reply was not acceptable as FAB was the custodian of the Spectrum and allocation & monitoring of the spectrum was the responsibility of the FAB. The technical regulations were approved by the Board which clearly state the mandate of FAB regarding taking legal actions and revocation of frequency spectrum.

The DAC in its meeting held in December, 2017 pended the para for further examination being technical issue.

Audit recommends that matter may be investigated for facts finding.

(DP No.99)

2.6.2 Unlawful re-farming of spectrum for 4G / LTE services - Rs 12,127 million

According to para 8.5 onward of Telecommunication Policy 2015, PTA / PEMRA in consultation with FAB will propose a re-farming framework to be approved by the Federal Government (MoIT). Regulation 24 (a) of FAB technical regulations 2015 states that allocation and assignment of radio frequency spectrum once made may be modified by the Board on the grounds of expansion of network or technical improvement or advancement of technique employed.

It was observed that FAB re-farmed the spectrum of 5.5 MHz out of 8.8 MHz in 1800 MHz without any approved re-farming framework as stated above. The recommendations of the Board for such re-farming were also not available in the record. FAB neither proposed any framework nor made recovery of cost of US\$ 115.5 million of re-farming of spectrum from M/s Telenor which resulted in provision of 4G services. This resulted into loss of Rs 12,127 million (US\$ 115.5x105) to the national exchequer.

Audit was of the view that FAB did not play its role due to which government sustained loss.

The matter was reported to PAO and management in September, 2017. It was replied that FAB had not approved any re-farming of spectrum of Telenor for its 1800 MHz band for 4G (LTE) services. The said re-farming was approved by PTA. The reply was not acceptable as FAB was the custodian of the Spectrum and allocation and monitoring of the spectrum was the responsibility of the FAB which was not done according to the powers given in the Act and technical regulations 2015. The spectrum re-farming was made by

the FAB and approved by the PTA, hence, FAB was also responsible for such unlawful activity.

The DAC in its meeting held in December, 2017 pended the para and directed PTA / FAB to give a detailed presentation to DAC within a week about the instant matter.

Audit recommends that matter may be investigated for facts finding.

(DP No.100)

2.6.3 Allocation and permission of frequency without recovery of cost - Rs 385.875 million

According to decision of Azad Jammu and Kashmir Council, Secretariat vide minutes of Inter – Ministerial meeting dated 12th April, 2006, initial license fee US\$ 10 million for (13 + 13) MHz of spectrum was charged from cellular operators while permitting them for operation in AJK and GB. The case of SCO for allocation of additional frequency in AJK and GB will also be entertained on the same benchmark. Further, Para 4.4.4 of De-regulation Policy 2003 states that all entities using spectrum shall be charged a fee for spectrum. The fee will be approved by the Government of Pakistan and recovered by Frequency Allocation Board from users of frequency spectrum.

According to minutes of 37th Frequency Allocation Board (FAB) dated 23rd September, 2010 and PTA letter dated 4th July, 2011 the Frequency Allocation Board (FAB) approved the assignment of 1754.1 – 1759.1 / 1849.1 – 1854.1 MHz (5 + 5 MHz) in the 1800 MHz band to SCO for AJ&K and GB for mobile services. SCO was using this frequency assignment and providing the services to customers through S.Com Mobile. Frequency Allocation Board (FAB) did not recover the cost of the frequency assignment US\$ 3.675 million (equivalent to Pak Rs 385,875,000) till date.

Audit was of the view that FAB extended undue favour to SCO and did not play its role due to which government sustained loss.

The matter was reported to PAO and management in September, 2017. It was replied that the recovery of license fee or spectrum fee from any telecom operator in Pakistan and AJK & GB was the domain of PTA and not of FAB. The reply was not acceptable as FAB was also responsible to watch the interests of the Government and was required to watch the recovery of the dues with the help of PTA.

The DAC in its meeting held in December, 2017 pended the para for further examination.

Audit recommends that updated status may be obtained from PTA as required in the de-regulation policy and provided to Audit to proceed further in the matter.

(DP No.103)

2.6.4 Non-utilization of budget and wasteful expenditure - Rs 16.380 million and -Rs 330,600

According to System of Financial Control and Budgeting issued by the Finance Division vide letter No.F.3(2) Exp.III/2006 dated 13th September, 2006 under head proposal for budgetary allocations submitted for approval shall be evaluated very carefully and forwarded to, for budgetary allocations.

FAB initiated the process for hiring of consultant for construction of FAB Headquarter Building Islamabad in June 2013 and consultancy contract agreement amounting to Rs 16,843,200 was made with M/s Engineering Consultancy Services in November, 2015 with an abnormal delay. The contractor completed only topographic and soil investigation in 09 months and an amount of Rs 330,600 was paid during 2016-17. FAB obtained budget every year from 2014-15 to 2016-17 for construction of Building but neither PC-I was prepared nor

any work was started. The budgetary allocations remained unutilized every year which indicated ineffective internal controls. Detail of Budgetary allocations is as under:

Sl. No.	Description	2014-15	2015-16	2016-17	Total
01	Construction of	5,000,000	6,000,000	5,380,000	16,380,000
02	Funds Released			991,800	991,800
03	Expenditure			330,600	330,600

Moreover, according to the license conditions the Telecom Operators contributed 75% of the FAB approved budget as Spectrum Administrative Fee. The budget approved by PTA for construction of FAB Headquarter Building remained un-utilized every year, hence, the effect / calculation of 75% contribution by the operator was not known to Audit.

Audit held that FAB had ineffective budgetary controls. Moreover, the delay in starting of construction of building would result into payment of escalation charges and higher cost of construction.

The matter was reported to PAO and management in September, 2017. It was replied that construction of FAB HQ Building was gigantic task in which investment / expenditure worth hundreds of millions of rupees was involved and many other formalities including compliance of Building Code and by-Regulation of CDA needed compliance to avoid any litigation. Therefore, in order to complete the task in most efficient and economical manner, a building Consultant was hired after the fulfillment of all codal formalities and an agreement was signed in November 2015. Thereafter, the consultant performed the work and payment was released to him on account of topographic survey and soil investigation report. Moreover, FAB management took all necessary steps for completion of the project. PTA approved and released budget to FAB. Therefore, any query of Audit regarding impact of utilized budget on Spectrum Administrative Fee may please

be taken up with PTA. The reply was evasive as the question was of non-utilization of budget released every year which resulted into delay in completion of project and increase of project cost.

The DAC in its meeting held in December, 2017 directed FAB management to get the record verified from audit.

Audit recommends that matter may be investigated with a view to find reasons for delay in the project despite availability of funds and furnish the same to Audit to proceed further in the matter.

(DP No.96)

MINISTRY OF DEFENCE PRODUCTION

CHAPTER-3

**NATIONAL RADIO TELECOMMUNICATION
CORPORATION**

3. NATIONAL RADIO & TELECOMMUNICATION CORPORATION PRIVATE LIMITED

3.1 Introduction

National Radio and Telecommunication Corporation (NRTC) was incorporated as a private limited company on 16th February, 1966 to cater to the needs of Army. NRTC is managed by a Board of Directors under the administrative control of 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's Board of Directors is headed by Secretary, Ministry of Defence Production as its Chairperson to run the affairs of the Corporation.

3.2 Comments on Budget and Accounts

3.2.1 NRTC management did not provide complete Annual Audited Accounts for the year ending 30th June 2017. The report of Chartered Accountants to the Financial Statements was not provided.

3.2.2 As per the Statement of profit or loss for the year ending 30th June 2017, Gross profit for the year decreased by 13.82% from Rs 1,772.872 million in 2016 to Rs 1,527.693 million in current financial year. On analysing, the sales were also found to have decreased by 13.36 % from Rs 6.669 million in 2016 to Rs 5.778 million. The distribution cost increased by 21.39 % from Rs 109.806 million to Rs 133.298 million. These figures showed poor performance and excessive expenditure on distribution cost.

3.2.3 As per note 7 of Financial Statements, depreciation reserve fund was created for the purpose of replacement of property, plant and equipment amounting to Rs 100 million which was not enhanced during current financial year. Moreover, this reserve should have been enhanced equal to the amount of depreciation charged in the relevant year.

3.3 Status of Compliance with PAC Directives

NRTC, Ministry of Defence Production

Following table shows the compliance status of PAC directives

Sl. No.	Audit Year	Total Paras	Total Directives	Compliance		%age
				Received	Not received	
1	1988-89	03	03	00	03	00
2	1990-91	10	10	10	00	100
3	1992-93	10	10	10	00	100
4	1994-95	No audit para was printed in Audit Report				
5	1996-97	10	02	01	01	50
6	1997-98	10	10	10	00	100
7	1999-00	09	09	04	05	44
8	2000-01	12	12	07	05	58
9	2001-02	08	08	08	00	100
10	2003-04	09	09	07	02	60
11	2004-05	13	13	11	02	85
12	2005-06	08	08	02	06	25
13	2006-07	05	05	00	05	00
14	2007-08	12	12	12	00	100
15	2008-09	04	04	03	01	75
16	2009-10	04	04	04	00	100
17	2013-14	05	05	04	01	80

AUDIT PARAS

3.4 Irregularity & non-compliance

① 3.4.1 Irregular procurement without calling tenders - Rs 13.504 million

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

During audit it was revealed that NRTC made procurements from different national & international vendors amounting to Rs 13,503,705 during the year 2016-17 without calling tenders as required in PPRs, 2004. The detail is as under:

Sl. No.	DP No	Description	Vendor Name (M/s)	Amount in Rs
1.	262-18	Procurement of Furniture	Happy Furnishers Islamabad	2,908,035
2.	264-18	Procurement of Rework Solder and Rework Solution	OK International	3,111,969
3	265-18	Procurement of Fume Extractor	Purex UK	861,430
4.	266-18	Procurement of Test Equipment (Spectrum Analyzer)	Rohde & Schwarz Pakistan	2,000,588
5.	267-18	Procurement of Wire Stripe Machine	Schleuniger AG	4,621,683
Total				13,503,705

Audit was of the view that procurement made without calling tenders was violation of PPRs and showed weak internal controls of the entity.

The matter was reported to PAO and management in November, 2017. It was replied against Sl. No.1 that furniture was purchased on the recommendation of the committee constituted for the purpose and through market survey. Against Sl. No.2 it was replied that Rework Solution was required to upgrade the production line to reduce the process time and ensure quality production. The Metcal (the brand of OK international) was demanded due to their excellent performance and being proprietary of the OK International. Against Sl. No.3, it was replied that NRTC had already used such fume extractor and had technical trainings and expert capability of the workers on the machines. Against Sl. No.4, it was replied that the said spectrum analyzer only served the purpose of the user, therefore it was procured directly from the OEM (M/s. Rohde & Schwarz Pakistan (Pvt) Ltd, Germany). Further, against Sl. No.5 it was replied that on the recommendation of the committee constituted for the purpose, the requisite machine was procured from M/s. Schleuniger AG, Switzerland through sole distributor of the company in Pakistan. The replies were not acceptable as the procured furniture/stores and materials were not proprietary items of a single vendor in the national/international market. So, competition could be generated through national / international tendering.

The DAC in its meeting held in January, 2018 directed management to fix responsibility for the violation of PPRs in case of Sl. No.1. It was further directed against remaining pointed out procurements to constitute a committee to look into the matter whether the subject procurements were proprietary items or procured from Original Equipment Manufacturer (OEM) as per the requirements of end user. The report may be furnished to audit.

Audit recommends implementation of DAC directives to proceed further in the matter.

(DPNo. 262, 264, 265, 266 & 267)

3.4.2 Irregular award of work-Rs 7.961 million

According to Rule 13 of PPRs, 2004, the procuring agency may decide the response time for receipt of bids or proposals 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.

During audit it was revealed that NRTC management awarded three works to M/s Shoukat Iqbal Mir & Company and Paracha Construction Company, Taxila for construction of underground water tank and repair/renovation of quarters at a cost of Rs 7,738,232. The award of works was held irregular as response time for three referred tenders was less than 15 days for prospective bidders. Further, NRTC floated a tender on PPRA website on 17-08-2016 for procurement mentioned at Sr.No.4 below. NRTC management procured tools valuing Rs 222,370 (US\$2,160) by placing direct purchase order on M/s YI Chang Machinery Ltd, Taiwan rather than through open tender and did not furnish reply to PPRA for not observing prescribed response time which was pointed out by PPRA in its letter dated 18-08-2016. The detail is as under:

Sl. No.	DP No	Description	Amount in Rs	Tender Floating date	Tender Opening date	Response time
1.	259-18	Construction of Under Ground Water Tank.	3,393,513	28-02-16	07-03-16	9 days
2.	260-18	Repair & Renovation of house No.D-56	454,189	04-08-16	12-08-16	9 days
3.	261-18	Repair & Renovation of 27x PTCL Quarters	3,890,530	23-02-17	02-03-17	8 days
4.	263-18	Procurement of tools	222,370	17-08-16	25-08-16	9 days
Total			7,960,602			

Audit held that non-observance of codal formalities rendered the procurement process irregular.

The matter was reported to PAO and management in November, 2017. It was replied against Sl. No.1 that tender notice was published in the newspaper and floated on PPRA website as well. On PPRA website seventeen (17) days and in print media nine (9) days were allowed as response time for bidders. Against Sl. No.2 it was replied that tender notice was floated on the PPRA website for repair / renovation of the NRTC Quarter D-56 due to urgency from the occupant. Although the tender was floated for only nine (9) days but competition was generated and work was awarded to the lowest. The Board had approved to get the quotations upto the limit of Rs 500,000. Further, it was replied against Sl. No.3 that there was acute shortage of family accommodation in NRTC, therefore, the management hired 27 Nos quarters from PTCL management to overcome the shortage of accommodation. Keeping in view, the dire need of employees short tender notice was uploaded on PPRA and NRTC website. Against Sl. No.4, it was replied that the approval of competent authority was obtained to procure tools on urgent basis to maintain the stock level and to avoid stoppage in the production line.

The reply was not acceptable as the response time for tenders at Sl. No.1, 2 & 3 was of nine (9) and eight (8) days respectively for prospective bidders. Further, the approved limit of Rs 500,000 to get quotation was only applicable to spare/stores for urgent orders from Armed Forces. Further, the reply against Sl. No.4 was also not acceptable as the response was not submitted to PPRA against its observation dated 18-08-2016 and the procurement of tools was made through direct purchase order in violation of the Public Procurement Rules, 2004.

The DAC in its meeting held in January, 2018 directed the management to fix the responsibility for violation of PPRs.

Audit recommends that the matter of violation of rules may be investigated and responsibility be fixed under intimation to audit.

(DP No.259, 260, 261 & 263)

3.5 Internal Control Weaknesses

3.5.1 Non-delivery of goods by suppliers -Rs 4.307 million

According to terms and conditions of respective purchase orders placed by NRTC against vendors (Suppliers), the stores were required to be received in NRTC within the period of two weeks to two months.

Contrary to above, during scrutiny of local suppliers' ledgers, it was observed that an amount of Rs 4,307,606 was lying outstanding against local suppliers of NRTC during the financial year 2016-17 but receipt of goods, debit and credit note etc were not on record regarding advances made to suppliers.

Audit was of the view that non-delivery of goods / non-updation of IGRs was tantamount to weak internal controls of the entity.

The matter was reported to PAO and management in November, 2017. It was replied that the amount observed by audit was the outstanding balance against the local suppliers as on 30.06.2016. The matter had been taken up at appropriate level and corrective measures and adjustments were being made. The reply was not acceptable as the pointed out amount was not recovered / adjusted till finalization of this report.

The DAC in its meeting held in January, 2018 directed the management to get the record verified from audit after posting and updating of Incoming Goods Receipts (IGRs).

Audit recommends that the amount may be recovered / adjusted at the earliest under intimation to audit. Further, a fact finding report

may be conducted to know the reasons of non-recovery / non-adjustment of referred advances to suppliers.

(DP No.275)

3.5.2 Non-collection of GST-Rs 0.991 million

According to section 3(1) (a) of Sales Tax Act, 1990, there shall be levied sales tax @ 16% on the value of taxable supplies made by a registered person.

During audit it was revealed that a contract was executed between PAF (Buyer) and M/s NRTC (Supplier) for provision of certain stores. NRTC management received and accepted the amount of Rs 5,977,777 without charging sales tax @ 16% of Rs 991,134 to the customer/buyer (PAF) which was contrary to the Sales Tax Act, 1990.

Audit held that negligence on part of the entity deprived the Government of its tax revenue.

The matter was reported to PAO and management in November, 2017. It was replied that on completion of delivery, NRTC management raised the bill amounting to Rs 7,185,722 including 16% General Sales Tax. The CMA (DP) released an amount of Rs 5,977,777 after deduction of income tax and GST was not paid as it was not included in the contract (defence related items were exempted from Sales Tax at that time). NRTC management had again taken up the case with the concerned agency (Air Head Quarter) for payment of GST.

The reply was not acceptable as it was the responsibility of NRTC management to make necessary amendments in the already existing contracts as per Sales Tax Act, 1990 and its subsequent amendments.

The DAC in its meeting held in January, 2018 directed the management to make the necessary amendment in the contract and recover the amount of GST from client at the earliest.

Audit recommends that the pointed out amount may be recovered under intimation to audit.

(DP No.277)

3.6 Receivables

⑤ 3.6.1 Late delivery of goods and non-receipt of sale proceeds - Rs 175.088 million

According to clause 8(b) of Contract No. 1590476/R-1605/310647, dated 30-06-2016 executed between M/s NRTC and CO PNS, Siddique Naval Air Base, Turbat, NRTC was required to provide goods to CO PNS Siddique Naval Air Base, Turbat till 28th February, 2017.

Audit revealed that NRTC supplied goods to the Consignee valuing Rs 265,677,205 on 12-05-2017 with delay of more than 2 months. However, an amount of Rs 175,088,733 was not recovered against delivered goods. Further, invoice for referred delivery was not issued despite lapse of six (6) months.

Audit was of the view that late delivery of goods and non-recovery of amount involved was due to weak receivable management.

The matter was reported to PAO and management in November, 2017. It was replied that stores were delivered in May, 2017 because of non-availability of the sites and security clearance from the customer. The deliveries / installation had now been completed as per contract and final end user certification / inspection would be carried out shortly. The final bill against the contract will be issued accordingly. The reply was not acceptable as the pointed out amount was not recovered till the finalization of this report.

The DAC in its meeting held in January, 2018 directed the management to recover the amount at the earliest.

Audit recommends that the pointed out amount may be recovered under intimation to audit.

(DP No.271)

⑥ 3.6.2 **Non-receipt of sale proceeds - Rs 79.893 million**

According to clause 28.4 and 6.3 of contract Nos. PITB/Proc/2097, dated 22-03-2016 and No./2016 (CP-Hyderabad), the amount was required to be received within 30 days after the issuance of handing over/taking over certificate/completion of work. Further, according to clause 6 of Contract No. 1490085/B-1506/310926, dated 26-06-2015, the goods were required to be delivered on or before 25-09-2015. Moreover, clause 33 of ibid, stated that LD @ 10% would be charged by the purchaser if the goods were delivered after expiry of delivery date.

During audit, it was revealed that an amount of Rs 79,893,047 was not recovered against the above mentioned contracts by M/s NRTC. Further, there were chances of imposition of LD for late delivery of goods in accordance to the clause 33 of the contract against Sl. No.3. The detail is as under:

Sl. No.	DP No	Description	Client Name (M/s)	Amount in Rs	Remarks
1	279-18	Installation of CCTV Surveillances System	Punjab Information Technology Board	13,008,853	Recovery of Rs 102,951,526 has been verified by Audit.
2	280-18	Provision of Jammers & Allied Equipment	Central Prison Hyderabad	49,157,694	-
3	283-18	Provision of stores	Director Procurement, Navy (MoDP)	17,726,500	Goods were delivered with a delay of one year.
Total				79,893,047	

Audit held that weak receivable management resulted into non-recovery of sale proceeds.

The matter was reported to PAO and management in November, 2017. It was replied against Sl. No. 1 that an amount of Rs 102,951,526 out of observed amount had been received against the contract No. PITB/Proc/2097 dated 22.03.2016. Against Sl. No. 2 & 3, it was replied that funds had not been allocated. The observed amount was pending and was being pursued at the appropriate level for early receipt of funds from client. The replies were not acceptable as an amount of Rs 79,893,047 was not recovered till the finalization of this report. However, a recovery of Rs 102,951,526 has been verified against Sl. No.1 by the audit during verification carried out on 28th November, 2017.

The DAC in its meeting held in January, 2018 directed the management to recover the amount at the earliest.

Audit recommends that remaining amount may be recovered under intimation to audit.

(DP No.279, 280 & 283)

① 3.6.3 **Excess delivery of goods and non-receipt of sale proceeds - Rs 10.725 million**

As per Clause 6 of contract signed between Home Department of Sindh, Karachi and M/s NRTC dated 21st April, 2015, the 50% of the total contract value was required to be received by M/s NRTC at the time of signing of the contract and remaining 50% balance required to be received from client within 30 days after submission of bill.

M/s NRTC supplied 10 jammers stations to client vide delivery advice No. SL/ I-Gen /Sukkur / Prison, dated 18-09-2015 rather than 9 jammers as per BoQ of the contract. However, total amount of Rs 10,725,832 of 10 jammers is still recoverable.

Audit was of the view that excess delivery of goods and non-recovery of amount involved was due to weak receivable management.

The matter was reported to PAO and management in November, 2017. It was replied that delivery of 01 additional Jammer was in accordance with the contract and covered under the foot note at Annex-B which stated that “prices may vary depending on number of jamming solutions installed per site” which in this case is 10 jammers instead of 09. Invoice including the price of additional jammer had been raised. However, the pointed out amount was not recovered till the finalization of this report.

The DAC in its meeting held in January, 2018 directed the management to recover the amount at the earliest.

Audit recommends that the pointed out amount may be recovered under intimation to audit.

(DP No.274)

④

3.6.4 Non-receipt of sale proceeds against delivered goods - Rs 9.329 million

According to clause 18 of purchase order No. 4500001430, dated 01.02.17, the amount was required to be received after 30 days of Goods Receipt Note (GRN).

NRTC management did not recover an amount of Rs 42,149,998 from M/s PTCL against delivered goods for P.O No. 4500001430. The detail of delivered goods is as under:

Lot No./Advice	Dated	Name of Product	Quantity
Lot No.2	05-05-17	Metal Box	3000
Lot No.3	24-04-17	Metal Box	1000
Lot No.4.	24-05-17	Metal Box	2000
Lot No.5	24-06-17	Metal Box	2000
Lot No.6	05-07-17	Metal Box	3000

Lot No.7	12-07-17	Metal Box	2000
Lot No.8	25-07-17	Metal Box	2000
Lot No.1	06-04-17	Thermoplastic	2000
Advice	24-05-17	Thermoplastic	2000
Advice	07-04-17	Thermoplastic	2000

Further, it was also observed that invoice/bill was not generated against above mentioned delivered goods.

Audit held that weak receivable management resulted into non-recovery of sale proceeds.

The matter was reported to PAO and management in November, 2017. It was replied that bills for all the delivered items had been raised and an amount of Rs 32,820,480 had been received as partial payment and for remaining amount the pursuance was under way. The reply was not acceptable as the bills had not been raised till the time of audit and the amount of Rs 9,329,518 was not recovered till date. However, a recovery of Rs 32,820,480 has been verified by the audit during verification carried out on 28th November, 2017.

The DAC in its meeting held in January, 2018 directed the management to recover the amount at the earliest.

Audit recommends that remaining amount against delivered stores may be recovered under intimation to audit besides strengthening system of timely invoicing.

(DP No.284)

⑨ 3.6.5 **Non-receipt of security deposits against delivered goods - Rs 6.225 million**

According to clause 9 (C) of contract agreement, 5% of amount of total value of contract will be kept by buyer as security and shall be

released on completion of warranty period i.e. 12 months from the date of delivery as stipulated in clause 11(a to e).

NRTC management supplied different stores/services to different buyers but security deposits amounting to Rs 6,614,703 @ 5% kept by the buyers were not got released despite expiry of warranty period in contravention of above clause.

Audit held that non-receipt of security deposit after expiry of warranty period was due to weak internal control and poor receivable management.

The matter was reported to PAO and management in November, 2017. It was replied that bills against above mentioned contracts had been issued. An amount of Rs 389,835 had been received against three contracts and remaining were under pursuance. The reply was not acceptable as the amount of Rs 6,224,868 was not recovered till the finalization of this report. However, a recovery of Rs 389,835 has been verified by the audit during verification carried out on 28th November, 2017.

The DAC in its meeting held in January, 2018 directed the management to recover the amount at the earliest.

Audit recommends that the remaining amount may be recovered at the earliest and got verified from audit. The system of timely realization of security deposits may also be strengthened.

(DP No.282)

⑩

3.6.6 Non-recovery of exchange rate fluctuation charges - Rs 3.760 million

According to clause 15 of special condition of appendix to contract agreement bearing No 40/ET/2015-16/Army, exchange rate had been taken as 1 US\$ = Rs 104.00. However, any fluctuation in the rates of exchange at the time of opening of LCs and subsequent

variation at the time of payment will be paid at actual on production of bank documents. In case of increase in US dollar rate, the purchaser will make payment of the additional amount to the NRTC, on allocation of funds from GHQ.

NRTC management entered into a contract with M/s DGMP (Army) for supply of 862 Nos of Software Defined Radios (SDRs) on 29-06-2016. An amount of Rs 355,540,536 (US\$ 3,418,659) was received from DGMP (Army) @ Rs 104 per US Dollar on 21-12-2016. However, NRTC paid an amount of Rs 359,301,060 (US\$ 3,418,659) @ 105 PKR per US dollar to M/s Aselsan Electronics Turkey on 15-03-2017 without recovering fluctuation charges. This resulted into a loss of Rs 3,760,524 to NRTC.

Audit was of the opinion that the department failed to safeguard its interest due to non-invoking of clauses of the contract.

The matter was reported to PAO and management in November, 2017. It was replied that funds had not been allocated against the above mentioned contract. The observed amount was pending and pursuance at the appropriate level was being made for early allocation and receipt of funds from client. However, the pointed out amount was not recovered from the client till finalization of this report.

The DAC in its meeting held in January, 2018 directed the management to recover the amount at the earliest.

Audit recommends that the amount may be recovered from the client under intimation to audit.

(DP No.272)

⑪ 3.6.7 **Non-recovery of receivables on account of freight charges - Rs 2.705 million**

According to clause 9(a)(6) of the Contract No. 33/ET/2013-14/Army, dated 25-06-2014, the freight was component of contract

value US\$ 11,242,222 and the same was required to be received from the purchaser (DG Munitions Production). M/s NRTC placed a P.O on M/s Aselsan Electronics, Turkey to import the components for execution of referred contract

NRTC management paid an amount of Rs 2,705,370 as freight charges which were required to be recovered from the buyer (DGMP) but the same were not recovered.

Audit was of the opinion that clauses of the contract were not invoked to safeguard the organizational interests.

The matter was reported to PAO and management in November, 2017. It was replied that freight charges were payable by the customer. Bill alongwith other claims regarding fluctuation charges, local supplies portion and total freight charges would be raised on the receipt of budget / allocation of funds. The reply was not acceptable as it was the responsibility of NRTC management to raise the above said bills in time. The pointed out amount was not recovered till finalization of this report.

The DAC in its meeting held in January, 2018 directed the management to recover the amount at the earliest.

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

(DP No.281)

⑫
3.6.8

Payment of Liquidated Damages (LDs) due to late delivery of goods - Rs 1.697 million

According to clause 12 of the contract 80% of the contract value was required to be received in January, 2015 and 20% was required to be received in August, 2016. Further, LD maximum upto 10% was also required to be deducted on late delivery of goods as per clause 28.

It was revealed during audit that a contract was construed between NRTC and Pak Navy on 26-06-2014 for provision of goods by NRTC. The goods were supplied on 21-01-2015 with a delay of 03 months. The consignee deducted LD @ 10% of Rs 1,697,194 for late delivery of goods.

Audit was of the opinion that failure to meet delivery timelines resulted into payment of LD by the entity.

The matter was reported to PAO and management in November, 2017. It was replied that full payment against the observed contract No. 1390397/B-1401/310605 dated 26.06.2014 had been received and credited into NRTC account except the LD charges deducted for which the case had been taken up with the concerned agency. The amount of Rs 1,697,194 deducted by client from NRTC as LD was not recovered till the finalization of this report. However, a recovery of Rs 19,517,728 has been verified from audit during verification.

The DAC in its meeting held in January, 2018 directed the management to recover the subject amount.

Audit recommends that remaining amount of LD may be recovered under intimation to audit.

(DP No.273)

(B)

3.6.9 Non-recovery of Liquidated Damages (LDs) - Rs 1.119 million

According to letter No.FN/Exch-1604-1011, dated 02-04-2013 of NRTC, the DGP (Army) had waived off the LD against contract No. 09-0563-3-0 dated 14-06-2010.

Despite above waiver, during audit it was revealed that M/s NRTC failed to recover waived off Liquidated Damages (LDs) amounting to Rs 1,119,464.

Audit was of the opinion that waived off LD was not recovered due to negligence on part of the management.

The matter was reported to PAO and management in November, 2017. It was replied that observed amount was pending since long and pursuance at the appropriate level was being made for early release. The reply was not acceptable as the pointed out amount was not recovered till finalization of this report.

The DAC in its meeting held in January, 2018 directed the management to recover the LD charges or get the amount written off from NRTC board.

Audit recommends that the amount may be recovered under intimation to audit.

(DP No.269)

**MINISTRY OF INFORMATION
TECHNOLOGY &
TELECOMMUNICATION DIVISION**

CHAPTER-4

**IGNITE NATIONAL TECHNOLOGY FUND
(Formerly National information Communication
Technology Research & Development Fund**

4. IGNITE NATIONAL TECHNOLOGY FUND (FORMERLY NATIONAL INFORMATION COMMUNICATION TECHNOLOGY RESEARCH AND DEVELOPMENT FUND)

4.1 Introduction

Federal Government established a Fund called the Research and Development Fund under sub section (1) of section 33 C of Pakistan Telecommunication (Re-organization) (Amendment) Act, 2006. The Research and Development Fund shall be under the control of the Federal Government and the balance to the credit of the R&D Fund shall not lapse at the end of the financial year. The Research and Development Fund shall consist of:

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

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

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

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

4.2 COMMENTS ON BUDGET AND ACCOUNTS

National ICT R&D Fund management did not provide the annual audited accounts till finalization of the Report despite continuous pursuance by Audit. Hence, no comments on accounts could be rendered.

4.3 Status of Compliance with PAC Directives

Ignite National Technology Fund,
Ministry of Information Technology

No PAC meeting had been convened till date.

AUDIT PARAS

4.4 Irregularity and non-compliance

4.4.1 Unlawful appointment as acting CEO and payment of honorarium - Rs 1.536 million

According to Para 6 of Public Sector Companies (Appointment of Chief Executive) Guidelines, 2015 issued by Securities and Exchange Commission of Pakistan (SECP), Islamabad dated 3rd March, 2015, the Board shall recommend a minimum of three candidates to the line Ministry for appointment to the position of Chief Executive. Para 7 (1) *ibid* further states that upon concurrence of the competent authority, the Board shall appoint the chief executive and issue him a contract letter, with the requisite terms and conditions of appointment, signed by the Chairman, or other person authorized by the Board. Moreover, according to Finance Division (Regulation Wing) letter No.F.3(2) R-4/2011 dated 13th December, 2016 and 14th July, 2017, the officer in MP-I & MP-II are not entitled for honorarium without approval of the Finance Division. The Cabinet Division letter No.3/3/2006-RA-I/PTA dated 30th December, 2008 further stipulates that all Corporations, Autonomous Bodies etc are bound to follow Government Policies Guidelines issued from time to time.

In violation of the above, the Ignite Technology Fund Board appointed Dr. Syed Ismail Shah as acting CEO w.e.f 15th January, 2016 till the appointment of regular CEO without approval of Federal Government. The officer was already working as Chairman PTA in MP-I scale. Therefore, the appointment as acting CEO without consulting the Federal Government was considered unlawful. Moreover, the officer was paid an amount of Rs 1.536 million on account of honorarium without approval of Finance Division during 2016-17.

Audit held that codal formalities were not observed and appointment of CEO was made unlawfully.

The matter was reported to PAO and management in October 2017. It was replied that Dr. Syed Ismail Shah was appointed as acting CEO by the Board of Directors in its 43rd Board meeting held on 14th January, 2016. He remained CEO of the company till 13th December, 2016. The Board was competent in granting approvals for all Company matters. The Board of Directors in its 51st Meeting held on 14th April, 2017 had approved the honorarium for Dr. Syed Ismail Shah for his tenure as acting CEO of the Company. The reply was not acceptable because the officer was appointed by the Federal Government as Chairman PTA in MP-I scale, hence, Board cannot appoint him as acting CEO without approval of the Federal Government. Further, the payment of honorarium was also unlawful being paid without approval of the Finance Division.

The DAC in its meeting held in January, 2018 pended the para for further examination.

Audit recommends that matter should be investigated with a view to fix responsibility for the irregularity besides recovery of the amount involved.

(DP No.218 & 220)

4.5 Internal Control Weaknesses

4.5.1 Non-accountal and non-repossession of assets against technical R&D projects - Rs 7.726 million

According to Rule 5(g) of R&D Rules the Board shall ensure the integrity of the Company's accounting and financial reporting systems. Further, Rule 8(1) of R&D Rules 2006 requires that all Intellectual Property Rights, arising out of or capable of legal recognition in respect of projects implemented by the company shall vest absolutely in the company on the basis of the projects.

It was observed that the proposed budget submitted by the Principal Investigators (PI) included purchase of technical equipment which may have life more than the life of the project. However, there was no “Equipment Policy” in place to address transfer of ownership of the technical equipment either at the successful completion or completion of estimated time-period of the project. Assets amounting to Rs 7,726,600 were procured by the PIs in various technical R&D Projects but the company neither accounted for the assets nor recovered these from the PIs on completion of the projects during 2016-17.

Audit was of the opinion that system for accountal of technical / physical assets was non-existent due to which the assets could not be repossessed.

The matter was reported to PAO and management in October 2017. It was replied that the Board had approved the equipment repossession policy on 31st March, 2016 in its 45th meeting. The project was being closed and once the final settlement was made, the approved equipment repossession policy would be applied. The reply was not acceptable since the approved policy, its implementation and status of closure of the projects was not provided to Audit. In case of projects closed before start, the details that no expenditure was incurred and reasons of closure may also be provided for verification.

The DAC in its meeting held in January, 2018 pended the para with the direction to provide evidence in support of departmental reply for Audit verification.

Audit recommends that needful be done and record be shown to Audit without further delay.

(DP No.219)

4.5.2 Irregular payment of pay & allowances – Rs 3.932 million

According to Sl.No.17 of Chapter-III (Initial Appointment) of ESTA Code an appointee will remain on probation for a period of six

months or till the receipt of antecedents and other verification report. Further, Civil Servants Act 1973, Chapter-II Terms and conditions of service, Para 6 (2) (b) states that in case of initial appointment to a service or post, the probation period shall not be deemed to have completed until his character and antecedents have been verified as satisfactory.

It was observed that Ms. Arzoo Zahid was appointed as Executive Assistant on 2nd January, 2012 on contract basis and employment contract was signed on 20th May, 2013 after 1 year and 5 months of her appointment. However, the verification of degrees / certificates and other antecedents were not got verified before and after issuance of employment contract. The employment contract was further renewed on 3rd May, 2015 for three years without verification of degree and antecedents. The record further revealed that the official was suspended from duties on 28th September, 2016 and her contract was terminated on 1st December, 2016 due to non-provision of degree.

This showed that internal controls for appointment, promotion and other terms and conditions were non-existent in the organization. Therefore, in the aforesaid case payment of pay and allowances amounting to Rs 3,931,984 (January 2012 to September 2016 @ of Rs 70,214 Per Month) was held irregular.

The matter was reported to PAO and management in October, 2017. It was replied that a letter was sent to Al- Khair University for verification of the degree and university demanded a fee of Rs 2,000 which was not paid by the Company. Later HRGC, in its 50th meeting held on December 31, 2015 directed the Company to get the degrees of all employees attested from HEC. Employees were informed by HR department to get their degrees attested from HEC on January 29, 2016. Multiple reminders were sent to Ms. Arzoo Zahid dated 11th April, 22nd June, 14th July, 5th and 22nd August, 2016 but officer failed to submit the attested degree by

HEC and was suspended from duty on September 28, 2016 and was later on fired on December 1st, 2016 with approval of competent authority.

The reply was not acceptable as the degree was not got verified after appointment even at the time of renewal of the contract which showed that an undue favour was extended.

Taking a serious view of the fact that the official did not provide requisite degree at all, DAC in its meeting held in January, 2018 directed to place the issue before Board of Directors for appropriate action.

Audit recommends that the matter should be investigated for facts finding and fixing of responsibility.

(DP No.221)

4.6 Receivables

4.6.1 Non-recovery of R&D contributions from PTA and operators - Rs 1,299.159 million

According to SRO issued by MoIT vide No.846(1)/2007 dated 20th August, 2017, the R&D Fund Contributions are initially collected by PTA and required to be transferred to Public Account (MoIT) as per procedure duly mentioned in the USF Rules. Section 4.1 of the license conditions under head payment of fee of license states that the licensee shall contribute an amount calculated on the basis of @ 0.5% of its annual gross revenue to R&D Fund. Section 4.4.1 further stipulates that the licensee shall make this contribution within 120 days at the end of financial year.

In violation of the above the Ignite Technology Fund management failed to recover an amount of Rs 1,299.159 million from PTA and telecom operators during 2016-17. Detail is as under:

Sl. No.	Name of Agencies / Operators	Billing (Rs)	Receipt (Rs)	Balance (Rs)
01	Pakistan Telecommunication Authority (PTA)	1,297,927,525	0	1,297,927,525
02	M/s World Call Telecom Ltd	391,558	0	391,558
03	M/s Red Tone Telecommunication	652,415	394,354	258,061
04	M/s Wise Communication	582,185	0	582,185
TOTAL		1,299,553,683	394,354	1,299,159,329

Audit was of the view that the entity failed to recover the amount from telecom operators due to its weak receivable management.

The matter was reported to PAO and management in October, 2017. It was replied that a number of meetings on the issue were held with PTA. As per PTA, the amount was transferred to the Public Account on the advice of the Finance Division. The fund management never agreed with the Authority and booked the same as recoverable from PTA. The amount due from telecom operator was duly reflected in accounts of MoIT and depicted into the Fund ledgers. The reply was not acceptable since no recovery particulars were provided to Audit.

The DAC in its meeting held in January, 2018 directed Ignite Fund to recover the amount from PTA and operators after reconciliations and get it verified from Audit.

Audit recommends that matter may be resolved with PTA and recovery be made from the telecom operators and got verified from Audit.

(DP No.222 & 229)

4.6.2 Less realization of revenue - Rs 143.034 million

According to Section 4.1.2 of the license, the licensee shall pay the annual regulatory dues/fees, to the Authority calculated on the basis

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

Test check of demand notices revealed that the demand notices were issued by deducting Federal Excise Duty/Sales Tax from gross revenue for the calculation of Annual Regulatory Dues in violation of the above. The manager R&D Fund being the custodian of the Fund did not check the demand notices issued by the PTA which resulted in less realization of revenue on account of R&D contribution amounting to Rs 143,033,952. Detail is as under:

Sl. No.	Name of Operator	Period	Amount less realized (Rs)
01	M/s Multinet Pakistan Pvt. Ltd	December 31, 2016	1,169,193
02	M/s Cyber internet services Ltd	December 31, 2016	2,281,518
03	M/s Nayatel Ltd	December 31, 2016	6,280,406
04	M/s Linkdot net Ltd	December 31, 2016	7,682,091
05	M/s CM Pak Ltd.	December 31, 2016	31,057,475
06	M/s Mobilink	December 31, 2016	94,563,269
TOTAL			143,033,952

Audit was of the opinion that due to weak receivable management the company could not realize its dues as per clauses of license from telecom operators.

The matter was reported to PAO and management in October 2017. It was replied that clarification on the issue was sought from PTA. The Authority was of the view that sales tax was not part of the Gross Revenue. The reply was not acceptable because sales tax and other duties were the part of gross revenue. Further, the allowable deductions as per license conditions did not allow to deduct the sales tax / FED from Gross Revenue for the purpose of calculation of dues.

The PAC had already directed for amendments in the license conditions while discussing this issue.

The DAC in its meeting held in January, 2018 pended the para till the settlement of issue by PTA.

Audit recommends that amount less realized may be got recovered besides making amendment in the license conditions.

(DP No.230)

CHAPTER-5

NATIONAL TELECOMMUNICATION CORPORATION

5. NATIONAL TELECOMMUNICATION CORPORATION

5.1 Introduction

National Telecommunication Corporation (NTC) was established on 1st January, 1996 under the Pakistan Telecommunication (Reorganization) Act, 1996. The Corporation is a corporate body, 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. 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.

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

5.2 COMMENTS ON BUDGET AND ACCOUNTS

NTC management did not provide the annual audited accounts till finalization of this Report despite continuous pursuance by Audit. Hence, no comments on accounts could be rendered. However, audit had observed that the Receivable Management, Financial Reporting and Controls of the entity were weak as evident from the ensuing audit paras.

5.3 Status of Compliance with PAC Directives

NTC, Ministry of Information Technology

Following table shows the compliance status of PAC directives

SL No.	Audit Year	Total Paras	Total Directives	Compliance		%age
				Received	Not received	
01	1996-97	16	03	03	00	100
02	1997-98	11	11	11	00	100
03	1999-00	15	15	14	01	93
04	2000-01	17	17	17	00	100
05	2001-02	16	16	12	04	75
06	2004-05	16	16	15	01	94
07	2005-06 SAR	31	31	00	31	00
08	2005-06	15	15	15	00	100
09	2006-07	17	17	13	04	76
10	2007-08	13	07	00	07	00
11	2008-09	22	22	19	03	86
12	2010-11	30	23	20	03	87
13	2013-14	38	03	02	01	67

AUDIT PARAS

5.4 Non-Production of record

5.4.1 Non-production of record

According to section 14 (2) of AGP Ordinance, 2001, the officer in-charge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition, in compliance to the powers given to AGP vide section 14 (b) & (c). Further Para 14 (3) *ibid* stipulates that any person or authority hindering the auditorial functions of the Auditor General regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Disciplinary Rules, applicable to such person.

National Telecommunication Corporation did not provide the record relating to HR, personal files of the officers as requisitioned by audit which was violation of the mandate of the Auditor-General of Pakistan.

Audit was of the opinion that the entity hindered the process of accountability by non-producing auditable record.

The matter was reported to PAO and management in November, 2017. The management replied that all personal files, maintained in the Finance Department were provided to Audit. The reply was not factual as complete auditable record was not provided to audit for scrutiny.

The DAC in its meeting held in January, 2018 directed the management to ensure timely provision of record to audit.

Audit recommends that disciplinary action be taken against those who did not provide record at the time of audit.

(DP No.137)

5.5 Irregularity and non-compliance

5.5.1 Unlawful investment of funds - Rs 1,241.061 million

As per Ministry of Finance OM No F.4(1)/2002-BR-11 dated 02.07.2003, working balance limit of each organization should be determined with the approval of Administrative Ministry in consultation with the Finance Division. Finance Division has enhanced the working capital limit of NTC to Rs 300 million vide its U.O No F.3(1) DFA(IT)/2011 dated 18.02.2011. Further, there is no provision under Section 41(9) of Pakistan Telecommunication (Re-organization) Act, 1996 which allows NTC to make investment of surplus funds.

NTC management invested an amount of Rs 1,241,061,440 from working balance in Bank Alfalah @ 6.30% whereas it could invest its working capital of Rs 300 million only.

Audit held that investment made by the entity was against the existing rules of Finance Division.

The matter was reported to PAO and management in November 2017. The Management replied that NTC Investment policy was forwarded to MoIT for approval from Finance Division. In response, Finance Division vide No. 4(1)/2001-BR-441/16 dated 25th May, 2016 replied that instructions issued by Finance Division on 2nd July, 2003 are binding on all the Federal Government entities and may be followed in letter and spirit at the time of deposit of working balances. The reply was not acceptable as investments out of working balances were made beyond prescribed limit of Rs 300 million.

The DAC in its meeting held in January, 2018 directed the management to take up the case with the Finance Division in the light of Audit's view point and intimate the results to Audit.

Audit recommends immediate compliance of the DAC directive.

(DP No. 213)

5.5.2 Unauthorized retention of sales tax - Rs 66.609 million

According to Section 3 (1 & 2) of Islamabad Capital Territory (Tax on Services) Ordinance, 2001 amended upto 30th June, 2015, there shall be charged, levied and paid a tax known as sales tax @ 16% of the value of the taxable services rendered or provided in the Islamabad Capital Territory.

NTC management retained an amount of Rs 66,608,503 for provision on account of sales tax on services from Foreign Telecom operators against International Gateway Exchange but the same was not transferred to tax authorities during 2016-17. The detail is as under:

(Amount in Rs)

Sl. No.	Name of Operator	Mobile Cost	Taxation
01.	Geotel Lanka	3,686,755	718,922
02.	Link Technologies	49,716,811	10,010,432
03.	Real Telekom Limited	234,818,897	48,986,143
04.	Skylinks Telecom	414,482	80,826
05.	TLT Communication	2,749,025	536,059
06.	Technology Distribution Limited	15,917,996	3,731,677
07.	Telebiz International	13,036,989	2,544,444
Total		320,340,955	66,608,503

Audit was of the opinion that retention of sales tax instead of remitting it to FBR was against the rules.

The matter was reported to PAO and management in November, 2017. The management replied that provision for taxation was made as per international accounting standards. Further, the audit of annual accounts for the financial year 2016-17 was in process and would be provided accordingly. The reply was not acceptable as the annual accounts of NTC for the financial years 2015-16 & 2016-17 were not finalized and provided to Audit for verification and provision against sales tax was made to minimize the surplus.

The DAC in its meeting held in January, 2018 directed the management to get the annual audited accounts for the financial years 2015-16 & 2016-17 finalized and be provided to Audit for verification.

Audit recommends that the copy of vetted final accounts for the year 2015-16 & 2016-17 may be furnished to audit.

(DP No. 129)

5.5.3 Unauthorized purchase of vehicles –Rs 23.920 million

According to Finance Division (Expenditure Wing) OM No. F.7(1) Exp-IV/2016-510 dated 29.07.2016, there will be a complete ban on purchase of all types of vehicles both for current as well as development expenditure except operational vehicles of law enforcing agencies for which NOC from the Finance Division would be required.

NTC management obtained NOC for purchase of 12 vehicles (Cultus, Bolan and Toyota Hilux single/double cabin) against condemned vehicle in the year 2015-16. However, the expenditure of Rs 23,920,000 on purchase of vehicles was incurred in 2016-17 during ban period contravening instructions of the Finance Division. Further, the expenditure was incurred without availability/approval of budget against vehicles.

Audit was of the opinion that purchase of vehicles in the year 2016-17 was irregular since the NOC was against a specific budget allocation for the year 2015-16.

The matter was reported to PAO and management in August/November, 2017. The management replied that the case had been taken up with the Ministry of Finance through MoIT for obtaining ex-post facto approval/ revised NOC for procurement. The reply was not acceptable as the vehicles were purchased without availability of

budget and against instructions of the Finance/Cabinet Divisions during 2016-17.

DAC in its meeting held on 22nd January, 2018 directed the management to pursue the case expeditiously and intimate Audit of the results.

Audit recommends that responsibility may be fixed for unauthorized purchase of vehicles and ex-post facto approval/ revised NOC be obtained and provided to Audit.

(DP No. 115)

5.5.4 Un-authorized payment to State Life Insurance Corporation - Rs 8.601 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 his behalf and the expenditure has been provided for in the authorized grants and appropriations for the year.

NTC management incurred an expenditure of Rs 8,600,792 on account of payment of premium to State Life Insurance Corporation of Pakistan for provision of insurance to NTC employees during 2016-17. The insurance policy was not approved from the competent authority.

Audit was of the opinion that rules were not followed in the instant case and payment of premium to State Life Insurance Corporation of Pakistan (SLIC) was irregular.

The matter was reported to PAO and management in November, 2017. The Management replied that case had already been taken up with MoIT to obtain ex-post facto approval from the Finance

Division for registration of employees with State Life Insurance Corporation of Pakistan.

The reply was not acceptable as no further progress was intimated till the finalization of this report.

The DAC in its meeting held in January, 2018 directed the management to pursue the case vigorously for obtaining ex-post facto approval from the Finance Division.

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

(DP No. 118)

5.5.5 Un-authorized payment of house requisition - Rs 3.541 million

According to Para 8 (10) of Chapter-VI of Accommodation Allocation Rules 2002, a hired or requisitioned house shall be allotted at the station of posting of the FGS by issuing allotment letter.

NTC management incurred an expenditure of Rs 3,540,561 on account of payment of house requisition to three officers against houses hired at places other than Islamabad whereas the officers were appointed and remained posted at NTC Headquarters & Regional Office, Islamabad since joining.

Audit was of the opinion that payment of house requisition to the employees other than the stations of their posting was not provided in the rules.

The matter was reported to PAO and management in November, 2017. The Management replied that notices had been issued to the officers for de-hiring of existing residential accommodations. No further progress as well as amount recovered from the concerned officers was intimated to Audit.

The DAC in its meeting held in January, 2018 directed the management to recover the amount from the officers besides de-hiring of the requisitioned houses under report to Audit.

Audit recommends that the responsibility may be fixed for unauthorized payment of house requisition besides effecting recovery under intimation to audit.

(DP No. 120)

5.5.6 Irregular extension in janitorial services agreement - Rs 3.182 million

According to rule 12 (2) of PPRs, 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. Further, note below rule 42 (c) (iii) stipulates that the contract or contracts do not exceed three years in duration.

NTC management had entered into contract with M/s United Human Resources Services (Pvt.) Limited for janitorial services on 18th September, 2013 for a period of three years. The same agreement was again extended for one year w.e.f. 18th September, 2016 to 17th September, 2017. The management of NTC incurred an expenditure of Rs 3,181,585 during the year 2016-17.

Audit held that the expenditure incurred was irregular due to non-floating of tenders and extension of the contract beyond three years.

The matter was reported to PAO and management in November, 2017. The Management replied that the contract for outsourcing janitorial services for NTC HQs new Building G-5/2 Islamabad was extended for one year as per provision of the contract clause 22. The reply was not acceptable as the Public Procurement Rules were violated.

The DAC in its meeting held in January, 2018 directed the management to fix responsibility for violation of PPRs and float fresh tenders.

Audit recommends immediate compliance of the DAC directive.

(DP No. 117)

5.5.7 Irregular payment on account of rental claim - Rs 1.175 million

According to Rule 11 of GFR Vol-I, each head of a department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant financial rules and regulations both by his own office and by subordinate disbursing officers. Further, rule 43 of Public Procurement Rules 2004 states that all procuring agencies shall make prompt payments to suppliers and contractors against their invoices or running bills within the time given in the conditions of the contract, which shall not exceed thirty days.

Director NTC Lahore made a payment of Rs 1,175,022 to NHA on account of rental claim against laid UG cable (20/0.6) along with road (N-5) during 2016-17. The payment was made for last seven years in 2016-17 without any contract agreement, terms and conditions, rate, invoices and other documents.

Audit was of the view that the payment was made without any contract and the corporation had no system in place to ensure compliance of codal formalities.

The matter was reported to PAO and management in November, 2017. It was replied that an amount of Rs 1.175 million was paid to NHA against rental charges from 14-09-2010 to 30-06-2016 after obtaining financial concurrence and approval from competent forum. No formal contract agreement was required as per

NHA SOP. Moreover, as per clauses 3, 8 & 12 of attached National Highways and Strategic Roads (Control) Rules Govt. of Pakistan, 1998 as amended in 2002 any agency interested in ROW is to obtain written consent from the authority (NHA) as per their SOP. The reply was not acceptable as the agreement with NHA and reasons for non receipt of claim from NHA for last five years were not provided.

The DAC in its meeting held in January, 2018 directed the management that the relevant documents may be provided for audit scrutiny.

Audit recommends immediate compliance of the DAC directive.

(DP No. 251)

5.5.8 Unauthorized payment of property tax - Rs 1.133 million

According to Punjab Government Property Tax rules, buildings owned by Government or a Local Authority such as a Corporation, Municipality or Town Committee are exempted from Property Tax.

NTC management paid an amount of Rs 1,133,233 on account of property tax during 2016-17 against NTC owned buildings in violation of above rule. The detail is as under:

Sl. No.	Name of Region / Division	Amount (Rs)
01	Lahore	1,093,763
02.	Faisalabad	39,470
Total		1,133,233

Audit held that negligence on the part of management caused loss of Rs 1.133 million to the Corporation.

The matter was reported to PAO and management in November, 2017. It was replied by the management that the matter had

been taken up with DG Excise & Taxation, Lahore. No further progress was intimated to Audit till the finalization of this report.

The DAC in its meeting held in January, 2018 directed the management that the case may be pursued vigorously and report provided to Audit.

Audit recommends immediate compliance of the DAC directive.

(DP No. 133)

5.5.9 Unauthorized opening of bank account against IGE operations

As per Finance Division letter No.F.13(2) EF-Inv/2008-473 dated 17th June, 2015, NTC may open a Foreign Currency Account in US\$ with a scheduled bank of Pakistan, one within the country and the other in United States of America subject to certain conditions including that foreign exchange proceeds will be surrendered by NTC in the inter-bank market within three working days in terms of Para-7 of Chapter XII of Foreign Exchange Manual. Both accounts would be used only for collection of NTC related revenue from abroad. NTC was further advised to approach State Bank of Pakistan through the authorized dealing Bank (where it intends to open a foreign currency account in Pakistan) indicating name of a bank abroad (where it plans to open a foreign currency account for the subject purpose) along-with authenticated copies of agreements concluded with foreign entities/operations/carriers.

NTC management did not comply with the clear instructions of the Finance Division regarding opening of foreign currency account. Following irregularities were observed:

- i. Two Pak rupee accounts (current and daily progress account) with HBL were opened on 03.04.2015 for foreign remittance by NTC management instead of foreign currency account in US\$.

- ii. Another current account was also opened with JS Bank Limited for the same purpose in Pak rupee instead of foreign currency account in US\$.
- iii. Competitive rates through open market survey regarding profit rates on deposits as well as special conversion rates for US\$ were not obtained before opening the accounts.
- iv. NTC management did not approach the State Bank of Pakistan for intimation regarding opening of these accounts and foreign operator's agreements in the light of above instructions.
- v. The Project Director (IGE) also showed serious concerns vide letter No.PD(IGE)/F-1/Bank Account/2015 dated 10.12.2015 about the delayed conversions of the foreign remittances and recommended to open foreign currency account in US\$ for realization of the amounts on the same business day.

The matter was reported to PAO and management in November, 2017. The Management replied that the matter regarding non-opening of foreign currency account had been referred to the Finance Division/SBP for their opinion. No further progress was intimated to Audit till finalization of this report.

The DAC in its meeting held in January, 2018 directed the management to pursue the case vigorously with the Finance Division/State Bank of Pakistan. Results thereof be intimated to Audit.

Audit recommends immediate compliance of the DAC directive.

(DP No. 108)

5.6 Performance

5.6.1 Loss due to non-achievement of planned objectives - Rs 143.888 million

As per PC-I a project named NTC Data Centre with Cloud Services was approved by Planning Commission. The Project was planned with a capital cost of Rs 399.500 million which was allocated for the project in ADP 2015-16. As per Annexure-D of PC-I, an estimated revenue of Rs 158.900 million was calculated for the 1st year.

NTC management incurred an expenditure of Rs 415.699 million on account of National Data Centre till the launching of the project. As per PC-I, estimated revenue was Rs 158.900 million in the first year after inception of the project whereas NTC management earned only Rs 15.012 million during 2016-17 which resulted into loss of Rs 143.888 million. It is worth mentioning that revenue was earned against the services provided to only six departments. No efforts were made by the NTC management to register other government departments.

Audit was of the view that the Corporation's inability to achieve its planned objectives caused loss of Rs 143.888 million.

The matter was reported to PAO and management in November, 2017. The Management replied that after successful establishment of Data Center setup in August 2016, this office aggressively approached interested organizations. Migration of data center services of five organizations amounting to Rs 57 million had been finalized to meet the planned objectives of National Data Center. The reply was not accepted as the documentary evidence of finalized amount of Rs 57 million was not produced to audit.

The DAC in its meeting held in January, 2018 directed the management that the relevant record may be got verified from Audit.

Audit recommends immediate compliance of the DAC directives.

(DP No. 138)

5.7 Internal Control Weaknesses

5.7.1 Minus balances against closed connections - Rs 1.410 million

According to the prevailing practice and NTC recovery, dispute resolution and doubtful/bad debt policy, the reconciliation with concerned departments will be made every month.

Audit observed negative balances of Rs 1,410,426 appearing in the accounts of Director NTC Lahore against a sample of 289 closed connections but the reasons thereof were not on record.

Audit was of the opinion that appearance of negative balance against closed connections was due to weak internal controls of the corporation.

The matter was reported to PAO and management in November, 2017. It was replied that minus balances were actually advance payments. The reply was not acceptable as recovery posting ledgers, receipt of advance payment and its adjustments were not produced to audit for verification.

The DAC in its meeting held in January, 2018 directed the management that the relevant record may be got verified from Audit.

Audit recommends that the relevant record may be produced to Audit.

(DP No. 252)

5.7.2 Unauthorized/Irregular favours to employees

According to Finance Division clarification issued vide O.M. No. F.1(68)/R-4/84 dated 02.07.1991, EOL of five years is admissible

to a Government servant for each spell of ten years of continuous service. If, however a civil servant has not completed ten years of continuous service on each occasion / time, EOL without pay for a maximum period of two years may be granted at the discretion of the head of his Ministry/Division/Department. Further, According to Establishment Division O.M. No. 1/23/66-T.IV dated 24th June, 1978 along with decision taken in the Special Selection Board meeting held on 17th September, 1980 for information and compliance, the government servants shall not be allowed to seek employment with private bodies outside Pakistan either on their own or through the Bureau of Emigration and Overseas Employment or Overseas Employment Corporation.

NTC management extended unlawful favours to its employees by ways of granting extension in EOL and allowing deputation abroad in private firms. The detail is as under:

Sl No.	DP NO.	Formation	Remarks
1	124-2018	NTC Headquarter	Unauthorized extension in EOL was granted to Miss Tarranam Hamid, Account Assistant for 250 days in continuation of already granted 730 days.
2	125-2018	-do-	Unauthorized extension in EOL was granted to Miss Shabana Khan, Junior Assistant. The official had been working in a private firm in UAE against her undertaking.
3	224-2018	-do-	Two officers were unauthorizedly allowed deputation in private firms of Saudi Arabia and UAE.

Audit was of the view that the employees of NTC were able to get unlawful benefits due to ineffective HR controls.

The matter was reported to PAO and management in November, 2017. The management replied against Sl. No. 01&02 that the extensions in EOL were given to both the officials

on medical grounds and in accordance with rule 9 of Revised Leave Rules 1980. As regards Sl. No. 03, deputations were allowed according to Rule 4.23 of the policy of NTC service regulations. The replies were not acceptable as favours extended to the said officials/ officers were unlawful.

The DAC in its meeting held in January, 2018 directed as under:

- i. Disciplinary proceedings may be initiated against the official under report to audit.
- ii. The official may be directed to join office after cancellation of EOL within 15 days, thereafter initiating disciplinary proceedings under report to audit.
- iii. Period of deputations of concerned officers be treated as EOL besides amending NTC rules for deputation abroad.

Audit recommends immediate compliance of the DAC directives. Responsibility may also be fixed for extending undue favours to employees.

(DP No.124, 125 & 224)

5.8 Receivables

5.8.1 Non-recovery of outstanding dues - Rs 60.126 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 irrecoverable the orders of competent authority for their adjustment must be sought.

NTC management failed to recover an amount of Rs 61,555,097 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 Interface (PRI), Un-identified connections and against National Data Center during financial year 2015-16. Non-recovery of NTC receipts reflected weak receivable management. The detail is as under:

(Amount in Rs)

Sl. No.	DP No.	Formation	Amount
1	285-18	Director NTC Islamabad	22,209,408
2	257-18	Director NTC Lahore	10,280,675
3	243-18	Director NTC Karachi	4,223,324
4	181-18	DEP NTC Hyderabad	1,990,187
5	180-18	DEP NTC Hyderabad	293,299
6	116-18	NTC H/Q	15,012,357
7	52-18	Director NTC Multan	7,545,847
Total			61,555,097

Audit was of the opinion that weak receivable management resulted into non-recovery of outstanding dues.

The matter was reported to PAO and management in November, 2017. It was replied by the management against Sl. No. 01 & 03 that an amount of Rs 1,428,677 had been recovered while in other cases, efforts were under way to recover the balance amount. An amount of Rs 1,428,677 had been verified from audit leaving a balance of Rs 60,126,420.

The DAC in its meeting held in January, 2018 directed the management to recover the amount at the earliest and get it verified from audit.

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

(DPs No. 52,116,180,181,243,257 & 285)

5.8.2 Non-recovery of revenue receipts - Rs 51.811 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 failed to recover an amount of Rs 91,172,373 on account of co-location charges, MSDN Internet, rent of microwave circuits, web hosting and interconnectivity charges from different telecom companies during FY 2016-17. Furthermore, no efforts were made for recovery of receivables since long. Detail is as under:

			(Amount in Rs)
Sl. No.	OM No.	Name of Service	Amount (Rs)
1.	02	Co-Location Charges (Space & Tower)	18,365,308
2.	03	MSDN Intranet	41,791,837
3.	04	Rent of Microwave Circuits	7,531,550
4.	05	Webhosting	1,021,649
5.	10	Inter-connectivity	22,462,029
TOTAL			91,172,373

Audit was of the opinion that revenue receipts could not be realized due to weak financial management.

The matter was reported to PAO and management in November, 2017. The Management replied that an amount of Rs 67,773,362 had been recovered and efforts were underway to recover the remaining. An amount of Rs 39,361,381 had been verified by Audit leaving recoverable balance of Rs 51,810,992.

The DAC in its meeting held in January, 2018 directed the management to recover the remaining amount at the earliest and get it verified from audit.

Audit recommends that strenuous efforts may be made to recover the remaining amount under intimation to audit.

(DP No. 123)

5.8.3 Non-recovery against pre-deposit works - Rs 47.083 million

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

NTC management did not recover the outstanding balances on account of pre-deposit works amounting to Rs 48,084,233 in three formations in violation of the above rule during 2016-17. The detail is as under:

(Amount in Rs)

Sl. No.	DP NO	Name of Formation	Amount
1	235-2018	Dir. Dev. NTC. Lahore & Karachi	41,085,409
2	109-2018	Dir. Dev. NTC (North) Islamabad	6,998,824
Total			48,084,233

Audit was of the opinion that weak receivable management resulted into non-recovery of dues on account of pre-deposit works.

The matter was reported to PAO and management in November, 2017. It was replied against Sl. No. 01 that an amount of Rs 1,000,767 had been recovered while in other case, efforts were underway to recover the balance amount. An amount of Rs 1,000,767 had been verified from audit leaving a balance of Rs 47,083,466.

The DAC in its meeting held in January, 2018 directed the management to recover the balance amount at the earliest and get it verified from audit.

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

(DP No 109 & 235)

5.8.4 Wrong billing on account of electricity and non-recovery - Rs 14.604 million

According to para 3 of lease agreement with M/s Multinet, the lessor shall provide and arrange to fix a sub meter for electricity & gas consumed by lessee for their premises. The lessee shall arrange monthly meter reading of sub-meter of the floor and electricity / gas consumed will be charged on prevailing LESCO & GAS company rates, which the lessee shall pay on monthly basis. Rule 28 of GFR Vol-I further states that no amount due to Government should be left outstanding without sufficient reason, and where any dues appear to be irrecoverable, the orders of competent authority for their adjustment must be sought.

NTC Lahore building was rented out to M/s Multinet and the supply of the electricity was made from NTC electric meter. The electricity bills issued to M/s Multinet by NTC during June 2012 to December 2015 were of lesser amount as per main WAPDA bill and share of monthly bill. This resulted in less billing and non-recovery of Rs 7,307,658 on account of electricity dues. It was further observed that NTC management failed to recover the electricity bills from M/s Multinet amounting to Rs 7,296,650 for the year 2016-17. NTC paid the electricity bills of a private company from the NTC funds which was irregular.

Audit was of the opinion that due to weak financial management the Corporation could not detect wrong billing and take remedial measures in time to recover its dues.

The matter was reported to PAO and management in November, 2017. It was replied that an amount of Rs 3,114,566 had been recovered and efforts were under way to recover the remaining

~~amount.~~ The reply was not acceptable as no documentary evidence in support of reply was produced to audit for verification.

The DAC in its meeting held in January, 2018 directed the management that the recovered amount may be got verified from audit and efforts be made to recover the balance amount.

Audit recommends that responsibility should be fixed for payment of utilities of a private company from NTC funds. The recovered amount may be got verified from audit and efforts be made to recover the balance amount.

(DP No. 255)

5.8.5 Non-recovery of rent of building and penalty - Rs 5.686 million

According to clause 1 (a) of lease agreement between Director NTC Lahore and M/s Multinet Pakistan (Private) Limited, 03 months advance payment will be paid before commencement of each quarter of every year. Failing above, as per clause 1 (iv) a surcharge equal to 1.75% per month will be imposed on outstanding amount on daily basis.

NTC management rented out office premises at 1st and 2nd floor of NTC building Lahore to M/s Multinet. An amount of Rs 14,647,959 on account of monthly advance rent was not recovered in violation of the above during 2016-17. Further, an amount of Rs 2,747,253 on account of late payment charges was also not recovered. This resulted in non-recovery of Rs 17.395 million from M/s Multinet which indicated undue favour and violation of the agreement.

Audit was of the opinion that due to weak financial management the Corporation could not recover the charges on account of rent and penalty.

The matter was reported to PAO and management in November, 2017. It was replied that an amount of Rs 11,709,664 had

been recovered and efforts were under way for the recovery of balance amount. An amount of Rs 11,709,664 had been verified from audit leaving a balance of Rs 5,685,648.

The DAC in its meeting held in January, 2018 directed the management to recover the balance amount at the earliest and get it verified from audit.

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

(DP No. 254)

5.8.6 Non-recovery of rent/standard rent - Rs 2.037 million

According to Rule 15 (2) of the Accommodation Allocation Rules 2002, an allottee, on his retirement or expiry of contract period shall be entitled to retain accommodation under his occupation for a period not exceeding six months, on payment of normal rent. Further, according to Rule-26 of GFR Vol-I, it is the duty of the departmental controlling officers to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the Public Account. Moreover, Schedule-V of the Gazette of Pakistan published on 11.06.1997 stipulated that two G-type quarters at DTTC Colony, Mughalpura, Lahore were vested to NTC Management.

NTC management failed to get vacated its quarters and a hut from unauthorized occupants. Further rent/standard rent amounting to Rs 2,037,125 could also not be realized. The detail is as under:

(Amount in Rs)

Sl. No.	DP No.	Name of Formation	Name of place	Detail of Occupant	Rent/ St.Rent
1	121-2018	NTC HQ Islamabad	Two G-Type Quarters at DTTC Mughalpura Lahore	PPO Department	623,568
2	241-2018	Director, NTC Karachi	Quarter No E-9, P & T Colony Gizri since 2009	Mr Obaid - ur- Rehman Ex-A.E	1,237,557

3	296-2018	DEP, NTC Sukkur	A Hut in residential colony of Microwave station Shikarpur	Mst. Shabaria	176,000
Total					2,037,125

Audit was of the opinion that Corporation failed to get vacated its quarters from unauthorized occupants and did not recover the standard rent due to weak asset management.

The matter was reported to PAO and management in November, 2017. It was replied against Sl. No.01 that the case is being followed with PTCL authorities for early reconciliation while in other cases the matters were subjudice. The replies were not acceptable as no documentary evidence in support of reply was provided to audit for scrutiny.

The DAC in its meeting held in January, 2018 directed the management to pursue the cases under litigation vigorously and reconciliation be made with PTCL at the earliest under intimation to audit.

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

(DP No.121, 241 & 296)

5.8.7 Excess payment to the contractor - Rs 1.352 million

According to para 19 (i) & (ix) of GFR Vol-I, the terms of a contract must be precise and definite and there must be no room for ambiguity or misconstruction thereon. Provisions must be made in contracts for safeguarding Government property entrusted to a contractor. Para 11 further stipulates that each head of department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant financial rules and regulations both by his own office and by subordinate disbursing officers.

File regarding re-location of NTC OSP network showed that contractor claimed the payment of cable of different specification used during the subject work. The cost comparison record revealed that trench of kacha, pacca, boring and tuff tiles etc were not as claimed by the contractor under head store. This resulted in excess payment to the contractor amounting to Rs 956,465. Another work regarding shifting of MSAG was analyzed and it was found that payment on account of store amounting to Rs 395,600 was made to the contractor in excess of actual trenches. Total excess payment to the contractor under head store was Rs 1,352,065.

Audit was of the opinion that due to weak contractual management the corporation made excess payment to the contractor.

The matter was reported to PAO and management in November, 2017. It was replied that the difference of trenches with respect to Copper & OFC Cables was comprehensively clarified /justified which clearly depicted that there was no difference of trenches & payment to the contractor. The reply was not acceptable as further documentary evidences like stock register of cables and spares used for respective works, original as built diagram of both works and contractor invoices for stores and services were not produced to Audit.

The DAC in its meeting held in January, 2018 directed the management that relevant documentary evidences as desired by audit may be provided for verification.

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

(DP No. 253)

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 Telephone & Telegraph 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 this 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.

6.3 Status of Compliance with PAC Directives

SCO, Ministry of Information Technology

Following table shows the compliance status of PAC directives

Sl. No.	Audit Year	Total Paras	Total Directives	Compliance		%age
				Received	Not received	
01	1992-93	22	22	18	04	82
02	1996-97	00	00	00	00	000
03	1997-98	04	04	04	00	100
04	1999-00	07	07	07	00	100
05	2000-01	05	05	05	00	100
06	2001-02	05	04	04	01	80
07	2005-06	09	09	09	00	100
08	2008-09	14	14	14	00	100
09	2010-11	16	16	14	02	88
10	2013-14	22	03	02	01	67

AUDIT PARAS

6.4 Irregularity and non-compliance

6.4.1 Non-deduction/deposit of advance Income Tax - Rs 16.595 million

According to AJ&K Council letter No. CIR-91/368-74 dated 12.08.2015, advance income tax @ 14% is applicable w.e.f 11th July 2015, on every user of internet in AJ&K whether subscribed through post-paid connection or prepaid card.

Audit observed that SCO earned revenue on account of internet facility amounting to Rs 196.688 million out of which Rs 135.135 million were related to AJ&K. An amount of Rs 16.595 million was required to be deducted as advance Income Tax and was to be deposited with the Inland Revenue Department of AJ&K.

Audit held that the management did not deduct advance income tax from subscribers due to non-observance of rules.

The matter was reported to PAO and management during August/ September, 2017. It was replied that an amount of Rs 36.540 million had been deposited on account of Advance Income Tax for the period from 11 July 2015 till August 2017. The reply was not acceptable as the documentary evidence regarding deduction of WHT @ 14% from the internet subscribers and copy of cheque and receipt of AJ&K Council were not provided to audit for verification.

The DAC in its meeting held in January, 2018 settled the para subject to verification of deposited amount.

Audit recommends that documentary evidence regarding deduction of WHT @ 14% from the internet subscribers and copy of cheque and receipt of AJ&K Council may be provided to audit for verification.

(DP No.173)

6.4.2 Unauthorized deduction of Tax by the operators - Rs 9.630 million

According to Section 153 (1) (b) of Income Tax Ordinance 2001, every prescribed person making a payment in full or part including a payment by way of advance to a resident person or permanent establishment in Pakistan of a non-resident person for the rendering of or providing of services shall, at the time of making the payment, deduct tax @ 8% in case of company and filer from the gross amount payable (specified in Division III of Part III of the First Schedule).

It was observed that telecom operators made payments to SCO on account of Calling Party Payment (CPP) charges, Domestic Private Leased Circuit (DPLC) Charges, Virtual Inter-connect Media (VIM) charges and Co-location Charges and withheld the amount of Income Tax at different rates (15%, 14%, 12%, 10% & 8% respectively). This resulted into an excess deduction of Income Tax of Rs 9,630,295 by Telecom Operators during the year 2016-17.

The deduction of income tax at different rates was in contravention of the above provisions and SCO management failed to check this practice.

The matter was reported to PAO and management during August/ September, 2017. It was replied that Special Communications Organization (SCO) is a Federal Govt. department under Ministry of Information Technology (MoIT). Tax on services is now under the domain of respective Provinces due to 18th Constitutional Amendment. Governments of Punjab, Gilgit-Baltistan and AJ&K have passed their "Tax Act" and framed their Sales Tax Rules on services. Therefore, various telecom operators have deducted WHT as per FBR withholding tax regime. The Federal Govt (FBR) has not issued any instructions for implementation of new tax regime for departments / public sector organizations like SCO so far. The matter requires Ministerial

consultation and issuance of formal instructions / procedure by FBR especially for SCO. The reply was evasive as the necessary clarification was required to be sought from FBR through MoIT.

The DAC in its meeting held in January, 2018 pended the para till provision of final outcome of the case.

Audit recommends that necessary clarification may be obtained from FBR for deduction of tax at uniform rate by the operators besides effecting recovery of tax under intimation to audit.

(DP No.169)

6.4.3 Irregular expenditure on distribution of telephone bills - Rs 1.932 million

According to Rule 12 (1) of PPRs 2004, procurements over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority's website in the manner and format specified by the Authority from time to time.

SCO management awarded the job for distribution of telephone bills to M/s Celmore and incurred an expenditure of Rs 1,932,251 during financial year 2016-17. The payment was held irregular on the following grounds:

- i. No open tender was floated to get economic rates for delivery of bills.
- ii. Withholding tax and Punjab Sales Tax as applicable on services were not deducted.

Audit was of the opinion that due to non-compliance of rules the expenditure on distribution of telephone bills was incurred irregularly.

The matter was reported to PAO and management during August/ September, 2017. It was replied that open tender for awarding

work of delivery of bills was floated by HQ SCO. All formalities were completed but no firm other than M/s Celmore participated in bid opening in February, 2017. Re-tendering was in progress and award of work would be shifted to the winning party. No payment had been made to M/S Celmore since September, 2016. The reply was not acceptable as the contention of the management that no payment was made to M/s Celmore since September 2016 was not correct. The payment to M/s Celmore was made in August, November & December, 2016 without inviting open tender.

The DAC in its meeting held in January, 2018 pended the para and directed the management to get the expenditure regularized from competent forum.

Audit recommends that the responsibility for violation of PPRs may be fixed and the expenditure be got regularized from the competent authority under intimation to audit.

(DP No.163)

6.4.4 Unauthorized expenditure on contingency - Rs 0.900 million

According to Rule 9 of GFR, no authority may incur any expenditure or enter into 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 appropriation for the year.

SCO management paid an amount of Rs 900,000 for the contingency of CMA (FWO) during the year 2016-17. The expenditure was held irregular as the budget of SCO under the head contingency cannot be utilized for CMA (FWO).

The matter was reported to PAO and management during August/ September, 2017. It was replied that audit of expenditure of contingency allocated to CMA (FWO) had already been carried out by DG Defence Audit. CMA (FWO) had been working as a disbursing

office to cater for the needs of SCO and FWO. The sanction of the President for CMA (FWO) to act as Controller Accounts for SCO was issued by GoP (MoD) in 1976. No separate grant for CMA (FWO) for work (maintenance of office / other contingencies) related to SCO was being allocated. The expenditure/ allocation of funds for contingency was being made as per the aforesaid sanction of the GoP. The reply was not acceptable as it was the domain of DG Audit, PT&T to conduct the audit of the grants received from MoIT. Further, no documentary evidence showing the contingency of CMA (FWO) to be met from the budget of SCO was shown and the contingency vouchers were also not provided to audit for scrutiny.

The DAC in its meeting held in January, 2018 pended the para with the direction to provide payment vouchers and to stop such allocation in future.

Audit recommends that the relevant rule / letter for allocation of contingency to CMA (FWO) alongwith payment vouchers may be provided to audit for verification

(DP No.175)

6.5 Receivables

6.5.1 Non-recovery of DPLC, Co-Location Charges and Outstanding dues - Rs 11.375 million

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

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

The management of SCO did not recover an amount of Rs 12,441,651 from M/s PTCL on account of DPLC and Co-Location charges for the year 2015-16 and 2016-17 and from various designated customers on account of working connections, Digital Cross Connect (DXX), casual telephone connections, & defaulters/court cases during 2016-17. The detail is given as under:

Sl. No.	DP No	Subject	Amount (Rs)
1	168-18	Non-recovery of DPLC & Co-location Charges	10,939,222
2	159-18	Non-recovery of Outstanding dues from subscribers	1,502,429
Total			12,441,651

Audit was of the view that due to weak receivable management, SCO could not realize its outstanding dues.

The matter was reported to PAO and management during August/September, 2017. It was replied against Sl. No. 1 that SCO was continuously pursuing M/s PTCL for early realization of dues. It was stated against Sl. No. 2 that an amount of Rs 1,067,064 had been recovered from concerned subscribers and efforts were being made to recover the balance amount. Audit had verified recovery particulars of Rs 1,067,064. However, the balance amount of Rs 11,374,587 could not be recovered till finalization of this report.

The DAC in its meeting held in January, 2018 directed the management to recover the amount and get it verified from audit.

Audit recommends that the outstanding amount may be recovered and got verified form audit.

(DP No.159 &168)

CHAPTER-7

UNIVERSAL SERVICE FUND COMPANY.

7. UNIVERSAL SERVICE FUND COMPANY

7.1 Introduction

Federal Government established a fund with the name Universal Service Fund under Section 33A of Pakistan Telecommunication (Re-organization) (Amendment) Act, 2006 to spread the benefits of the Telecom revolution to all corners of Pakistan. The main functions of the Fund are as under:

- To bring the focus of telecom operators towards rural population and increase the level of telecom penetration significantly in the rural areas through effective and fair utilization of the Fund.
- To improve the broadband penetration in the country.
- To bring significant enhancement of e-services, in rural as well as urban areas of the country.

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) (Amendment) 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.

7.2 Comments on Budget and Accounts

7.2.1 As per note 7.1 of Financial Statements ending 30th June, 2017. There were advances of Rs 1,303.689 million given to service providers which showed an increase of 799.88% as compared to last year advances of Rs 144.874 million.

7.2.2 As per note 13.2 of the Financial Statements ending 30th June, 2017, the Additional Commissioner Inland Revenue (ACIR) raised a demand note of Rs 3,939.571 million in respect levy of tax. The USF Company had not created provision in this regard which resulted into understatement of expenditure.

7.3 Status of Compliance with PAC Directives

USF Co, Ministry of Information Technology

No PAC meeting had been convened till date.

AUDIT PARAS

7.4 Irregularity & non-compliance

7.4.1 Irregular payment due to grant of unjustified Force Majeure - Rs 142.331 million

According to Clause 13.01 of Services and Subsidy Agreement, (a) If and to the extent that a Party's performance of any of its obligations pursuant to this Agreement is prevented, hindered or delayed by reason of a Force Majeure, then the non-performing, hindered or delayed Party may give written notice (c) within 10 business days of receipt of the Force Majeure Notice, the other Party shall either: (i) certify in writing (a "Force Majeure Certification") to the non-performing, hindered or delayed Party that a Force Majeure Event has occurred; or (ii) indicate in writing to the non-performing, hindered or delayed Party that a Force Majeure Event has not occurred, providing reasons for this conclusion.

It was revealed during audit that USF Company granted four (4) times Force Majeure (FMs) for 582 days in total to M/s CMPAK (Zong) in project for Rural Telecom and E-Services (RTeS)/Broadband for Sustainable Development (BSD) Turbat Lot and paid an amount of Rs 142,330,507 on account of completion of 4th Milestone. The payment made to USF Service Provider was held irregular as the Force Majeures were granted at a belated stage with a delay of two to eleven months in contravention of the clause 13.01 of SSA. Further, FMs were granted for 582 days exceeding the limit (180 days in accordance with clause 13.04 of SSA) of granting FM. Moreover, the project got delayed for 1,037 days including 582 days of FM.

Audit was of the view that unjustified Force Majeures were granted to service provider due to non-observance of codal formalities.

The matter was reported to PAO and management in November, 2017. It was replied that the Force Majeures were granted for the period which was beyond the control of service provider. The reply was not acceptable as the FMs were granted for 582 days beyond the limit of 180 days, permissible under clause 13.04 of SSA. Further, Force Majeures were granted at belated stage with a delay of two to eleven months in contravention of the clause 13.01 of SSA.

The DAC in its meeting held in January, 2018, directed the management to re-visit response time of 10 days for granting Force Majeure to service providers, if it deemed necessary. It was also directed to provide record to Audit proving that the limit of 180 days for Force Majeure was not exceeded.

Audit recommends that relevant record showing that FMs were granted with due diligence and according to the clauses of SSA may be provided to audit. Further, necessary amendment in the response time may be got approved from the competent forum under intimation to audit.

(DP No.232)

7.4.2 Unauthorized allocation of funds to MoIT- Rs 10.246 million

According to Section 33 B (2) of Pakistan Telecommunication (Re-organization) (Amendment) Act 2006, the Universal Service Fund (USF) shall be utilized exclusively for providing access to telecommunication services to people in the un-served, under served, rural and remote areas and other expenditure to be made and incurred by the Federal Government in managing USF.

It was revealed during audit that the Universal Service Fund Company issued letters of intent to M/s Tech Access and Megaplus for Rs 7,549,741 and Rs 2,696,220, respectively on 31-05-2017 (Total Rs 10,245,961) for IT infrastructure of Ministry of Information Technology. The allocation of Universal Service Fund to MoIT was

held irregular as it was against the pre-defined objectives of the USF.

Audit viewed the allocation of Universal Service Fund to MoIT as irregular since it was against the pre-defined objectives of the USF.

The matter was reported to PAO and management in November, 2017. It was replied that the Universal Service Fund was established and housed in the premises of Ministry of information Technology (MoIT), Government of Pakistan. MoIT was responsible for the administration and management of Universal Service Fund under the Pakistan Telecommunication (Re-organization) Act and USF Rules 2006 issued by the Government of Pakistan. The current IT infrastructure at MoIT was inadequate to meet the requirement of the Organization. The Board of Director of USF Company after detailed discussion in its 46th Board meeting resolved and approved a budgetary allocation of Rs 15 million for Administrative and Technical Support Assistance to MoIT. Accordingly, the procurement process was initiated as per PPRs guidelines. After a competitive bidding process, the procurement committee decided to issue the LOI to the lowest bidder. The reply was not acceptable as the usage and spending of Universal Service Fund was pre-defined in its Statue as mentioned above. Therefore, the spending or allocation of Public Fund for other than specified objective was irregular. It is worth mentioning that audit had already objected expenditure of around Rs 7 million for the same purpose during the previous year. Incurrence of such huge expenditure on staff of 4 to 5 persons housed in MoIT for managing USF was unlawful.

The DAC in its meeting held in January, 2018 pended the para and directed USF Company to provide the detail of expenditure incurred against this Letter of Intent (LOI).

Audit recommends that allocation / spending of USF in MoIT may be stopped. The already spent amount may be reimbursed to USF. Further, the detail of released / expensed amount may be provided to

Audit to proceed further in the matter.

(DP No.141)

7.4.3 Non-obtaining of insurance documents from USF Service Providers

Clause 7 of the Service Subsidy Agreement states that the USF Service Provider shall maintain or cause to be maintained on behalf of itself and all sub-contractors to whom the USF Service Provider has sub-contracted, all times during the term of this agreement, in a form and with insurers acceptable to USF Company, the following types of insurance: commercial general liability insurance and property insurance. Such policy or policies shall be on an occurrence basis and shall provide coverage for full legal defence costs, premises and operational liability, and blanket broad form contractual liability and property damage coverage including malicious property damage.

During audit, it was revealed that, the management of USF Company did not obtain the insurance documents from the service providers to protect the rights of the company in contravention of the Service and Subsidy Agreement. Audit was of the view that the payments made to the service providers without obtaining insurance documents were irregular. Detail of projects completed during financial year 2015-16 is as under:

Sl. No.	RTeS Lots	Name of Services Provider
1.	Malakand Lot	M/s Telenor Pakistan
2.	Sukkur Lot	M/s PMCL (Mobilink)
3.	Pishin Lot	M/s PTCL

Audit held that the company failed to avail risk mitigating measures as provided in the Service Subsidy Agreements.

The matter was reported to PAO and management in November, 2017. It was replied that the contract for Malakand Lot was signed on 4th October 2007 with Telenor Pakistan (Pvt.) limited but due to the Force Majeure event, the service provider was not able to complete the work according to the SSA signed between the parties. Therefore, the matter was presented in the 30th Meeting of USF Board of Directors; subsequently its SSA was terminated on 11th March 2013. M/s Pakistan Mobile Communication Limited (PMCL-Mobilink) and M/s PTCL had created group insurance reserve fund to provide insurance cover to their assets including assets built under the USF projects for Sukkur and Pishin lots respectively. The reply was not relevant as the insurance documents had to be secured before award of contract. Further, specific insurance was required by the Service Provider (SP) for the project/asset procured through subsidy rather than a creation of group insurance reserve fund as in case of M/s PMCL, M/s PTCL for Sukkur and Pishin Lots, respectively. The policy or policies should name USF Company as additional insured.

The DAC in its meeting held in January, 2018, directed the management that necessary amendment be made in Service Subsidy Agreement (SSA) and got approved from Board of Directors. The same may be got verified from Audit.

Audit recommends that responsibility should be fixed for non-observing the clauses of Service Subsidy Agreement (SSA). Further, necessary amendments may be got approved from the competent forum under intimation to audit.

(DP No.146)

7.5 Internal Control Weaknesses

7.5.1 Non-recovery from FBR-Rs 5,432.836 million

According to Section-49 (1) of Income Tax Ordinance, 2001 income of Federal Government shall be exempt from tax and in terms

of Section-2 (fa) of Pakistan Telecommunication (Re-organization) (Amendment) Act, 2006. The Federal Government means the Ministry of IT who has power to control and administer USF and R&D Funds. USF Policy Committee in its meeting held on 31-08-2016 resolved that legal wing of MoIT to take up the matter with Law Division for advice on forced deduction of Income Tax by FBR.

During audit it was revealed that the Federal Board of Revenue (FBR) deducted income tax amounting to Rs 5,432.836 million from bank accounts of Universal Service Fund and USF Company in violation of above provisions. The detail is as under:

Sl. No.	DP No.	Particulars	Amount Rs
1.	143-18	Income Tax withdrawn by FBR (from USF account)	1,493.264
2.	147-18	Income Tax withdrawn by FBR (from USF Company account)	3,939.572
Total			5,432.836

The matter was reported to PAO and management in November, 2017. It was replied that the matter was pending with the office of the President of Pakistan for final decision. An update on the matter would be shared with the audit once the matter was decided by the office of the President.

The DAC in its meeting held in January, 2018 directed the management to pursue the case vigorously with FBR for early realization of the amount.

Audit recommends that the case for refund of tax from FBR may be pursued vigorously under intimation to audit.

(DP No.143 & 147)

7.5.2 Non-reconciliation of MoIT and PTA figures of USF Charges - Rs 110.626 million

According to Rule 5(1) of USF Rules, 2006 the Federal Government may require licensees directly to deposit USF Contributions, within the period prescribed in their licences or may require them to deposit USF contribution on quarterly basis during the running financial year on estimated annual gross revenues subject to adjustments at the end of the financial year, and APC for USF in accordance with Access Promotion Rules or to collect and remit USF contribution and APC for USF to the Fund's designated account without any deduction within one month.

It was revealed during audit that there was a difference of Rs 110,625,684 in the figures of closing balances of Universal Service Fund (MoIT) and PTA on account of USF Charges receivable from telecom operators. The detail is as under:

Particulars as per	Opening Balance as on 30-06-16 (Rs)	Amount Billed during FY 2016-17 (Rs)	Amount received in MoIT during FY 2016-17 (Rs)	Closing Balance as on 30-06-17 (Rs)
USF (MoIT) (A)	316,030,166	5,644,049,202	4,937,815,037	1,022,264,331
PTA (B)	316,030,166	Not Available	Not Applicable	911,638,647
Difference (A-B)	-	-	-	110,625,684

Audit was of the view that the management of USF could not reconcile USF charges with PTA for want of effective financial management.

The matter was reported to PAO and management in November, 2017. It was replied that efforts were being made to reconcile the amount of receivables.

The DAC in its meeting held in January, 2018 directed the

management to evolve a mechanism for timely reporting and reconciliation. It was further directed that in this specific case the final reconciliation may be got verified from Audit.

Audit recommends that a mechanism may be devised to report accurate figures of receivables in the record of both stakeholders (PTA and USF) under intimation to audit.

(DP No.149)

7.5.3 Non-completion of Milestone-4 of RTeS Chitral Lot by M/s Telenor

According to Clause 4.01 of Services and Subsidy Agreement (a) Unless a Force Majeure Certification has been issued to certify that a Force Majeure Event has caused the failure, then failure to meet the Final Implementation Date identified in Schedule D may, at the sole discretion of USFCo, result in the imposition of one or more of the penalties set out as: (i) loss of eligibility for all or part of the USF Subsidy; (ii) forfeiture of all or part of the Performance Bond; (iii) payment of liquidated damages equal to one-half of one percent (0.5%) of the USF Capex Subsidy amount payable for the work that is delayed.

It was revealed during audit that the USF Company entered into contract with M/s Telenor Pakistan (Pvt) Ltd on 19-02-2015 for provision of telephony services at Chitral Lot RTeS/Lot 03-Chitral/2014. An amount of Rs 630.536 million was released till 30th June, 2017 to M/s Telenor Pakistan, although milestone-04 for this project had not been achieved and offered for technical audit which was required to be completed in May, 2017.

Audit was of the opinion that payment to the service provider was released without achievement of objectives which indicated ineffective monitoring mechanism.

The matter was reported to PAO and management in

November, 2017. It was replied that three milestones of RTeS Chitral Project had been completed successfully. However, fourth and final milestone was facing delay due to unavoidable circumstances. The reply was not acceptable as the project was not completed till the finalization of this report.

The DAC in its meeting held in January, 2018 pended the para till the completion / acceptance of milestone-04, recovery of due LD charges and its verification from Audit.

Audit recommends that the project may be got completed at the earliest and LD charges be deducted on final payment under intimation to audit.

(DP No.145)

7.6 Receivables

7.6.1 Non-recovery of receivables -Rs 27,425.156 million

According to Rule 5(1) of USF Rules, 2006 the Federal Government may require licensees directly to deposit USF Contributions, within the period prescribed in their licences or may require them to deposit USF contribution on quarterly basis during the running financial year on estimated annual gross revenues subject to adjustments at the end of the financial year, and APC for USF in accordance with Access Promotion Rules or to collect and remit USF contribution and APC for USF to the Fund's designated account without any deduction within one month.

It was revealed during audit that the Universal Service Fund (USF) management could not recover Rs 27,425,156,004 on account of receivables of APC for USF and USF contribution from telecom operators and the amount deposited with PTA by telecom operators till closing of financial year 2016-17. The detail is as under:

Sl. No.	Particulars	Amount Receivable from PTA (Rs)	Amount Receivable from Telecom Operators (Rs)	Total (Rs)	Remarks
1.	APC for USF	970,831,066	25,432,060,607	26,402,891,673	Relating to Previous Years
2.	USF Contribution	-	1,022,264,331	1,022,264,331	Relating to Current Financial Year
Total		970,831,066	26,454,324,938	27,425,156,004	

Audit was of the view that due to weak receivable management, USF could not realize its outstanding dues.

The matter was reported to PAO and management in November, 2017. It was replied that the receivable amount highlighted by the Audit in respect of APC had legal hindrances for realizing amount from operators as most of them were in court of law against the Authority (PTA). The Authority had issued show cause notices to telecom operators for recovery.

The DAC in its meeting held in January, 2018, directed the management to get the recovered amount verified from Audit, recover balance amount at the earliest and pursue the court cases for balance recovery.

Audit recommends that the pointed-out amount of APC for USF along with surcharge as applicable may be recovered from telecom operators at the earliest by pursuing the case vigorously in the Court of Law under intimation to Audit.

(DP No. 150)

ANNEXURES

MFDAC PARAS

(Rs in million)

Sl. No.	DP No	Subject	Amount
1.	PAKISTAN TELECOMMUNICATION AUTHORITY (PTA)		
01	71-18	Unlawful expenditure without budget allotment and misclassified expenditure	69.569
02	73-18	Misuse of financial powers resulting in unlawful payment to non-entitled persons	3.026
03	80-18	Unlawful retention of profit on Contributory Provident Fund	43.107
04	81-18	Unlawful creation of posts	0
05	193-18	Dysfunctional post of Director General (Finance)	0
06	195-18	Irregular Publication of Notification/Orders in the Gazette of Pakistan	0
07	197-18	Unlawful expenditure on training	0.610
08	199-18	Non-existence of internal controls resulting in non-updation of receivable ledgers	0
09	200-18	Non-existence of internal controls on allocation of temporary frequencies for test and trial purposes	0
10	201-18	Irrational decision by Ufone regarding charging of WhatsApp calls resulting in overcharging and leakage of revenue	0
11	202-18	Non-implementation of Telecommunication Policy 2015	0
12	206-18	Non-maintenance of seniority list, non-prescribing of promotion quota and non-implementation of court decision	0
Total			116.312

(Rs in million)

Sl. No.	DP No	Subject	Amount
2.	FREQUENCY ALLOCATION BOARD (FAB)		
01	102-18	Loss to National Exchequer due to illegal use of 900 MHz band for 3G	518.385
02	205-18	Weak internal controls on allocation of temporary frequencies for test and trial purpose and insufficient monitoring system	0
Total			518.385

(Rs in million)

Sl. No.	DP No	Subject	Amount
3.	NATIONAL RADIO TELECOMMUNICATION CORPORATION (NRTC)		
01	258-18	Irregular 100% advance payment and procurement by splitting -Rs 19.238 million	19.238
02	268-18	Non-production and delivery of SDRs to DGMP	0
03	270-18	Non-adherence to the orders of Supreme Court of Pakistan	3.512
Total			22.750

(Rs in million)

Sl. No.	DP No	Subject	Amount
4.	IGNITE NATIONAL TECHNOLOGY FUND		
01	215-18	Funding against unsolicited technical R&D Projects	824.871
02	217-18	Irregular expenditure on conferences, event & exhibition	9.236
03	223-18	Difference in two sets of figures	199.848
04	228-18	Irregular expenditure on Janitorial Services	0.977
05	246-18	Non-submission of Statement of Compliance-Code of Corporate Governance Rule	0
Total			1,034.932

(Rs in million)

Sl. No.	DP No	Subject	Amount
5.	NATIONAL TELECOMMUNICATION CORPORATION (NTC)		
01	93-18	Loss due to non-renting out spare space of NTC Building	2.826
02	94-18	Irregular expenditure on hiring of media without tendering	2.535
03	107-18	Irregular award of work and payment	5.088
04	110-18	Irregular award of work	11.011
05	111-18	Irregular award of work without open tender	0.408
06	112-18	Delay in completion of Pre-deposit works	58.048
07	113-18	Irregular expenditure on small development Works	9.197
08	114-18	Irregular transfer of Expenditure	181.295
09	119-18	Irregular Expenditure on Building Repair and maintenance Works	0.228
10	122-18	Non-transfer of Ownership of Vested Residential Quarters	-
11	126-18	Irregular retention and refund of liquidated damages	9.027
12	127-18	Less deduction of Income Tax and Unlawful refund	0.716
13	128-18	Unauthorized Payment on account of Current charges	0.366
14	130-18	Irregular Expenditure on procurement of Spares and Huawei Transmission Equipment	15.998
15	131-18	Less credit of profit realized on HBL daily progress Account	0.150
16	132-18	Irregular receipts of Payments made by M/S Durre IT solution against IGE Operations	11.382
17	134-18	Loss to NTC Due to decrease in profit rates by HBL	1.679
18	135-18	Loss due to conversion of foreign remittances on ordinary rates	1.892
19	136-18	Unlawful Investment of Employees Funds	5,579.356

Sl. No.	DP No	Subject	Amount
20	139-18	Irregular award of work	4.029
21	179-18	Non-recovery from Sindh local Government on account of damage cable	1.356
22	183-18	Irregular expenditure incurred on acquiring repair and maintenance services without contract	1.735
23	184-18	Irregular expenditure incurred on hiring of media without contract /tendering	0.635
24	186-18	Irregular Purchase of store item without tendering	0.259
25	187-18	Recurring loss on working connections	21.643
26	188-18	Irregular contract appointment and payment	0.303
27	210-18	Unauthorized payment of Pay & allowance	1.043
28	211-18	Undue favour to an official by NTC management	-
29	212-18	Unjustified blockage of Store	6.042
30	214-18	Unjustified release of retained LD & unjustified expenditure	0.794
31	233-18	Irregular expenditure on account of laying of UG & OFC cable at Abbottabad	13.104
32	236-18	Irregular expenditure on construction of building	5.200
33	242-18	Non-imposition of penalty to the bank for late transfer of revenue collection to main revenue collection account	1.429
34	244-18	Irregular retention of Group Insurance & GST/SST in DDO Account	2.662
35	245-18	Irregular deduction of tax from payments by PAF	3.620
36	250-18	Unauthorized payment of current charge payment	0.087
37	256-18	Non-recovery of chronicle receivable and liabilities with no movement over the years on account of pre-deposit works	13.380
38	287-18	Unjustified expenditure incurred on shifting of offices of Minister & MoIT officers at 3rd Floor of NTC RHQ Islamabad	0.153

Sl. No.	DP No	Subject	Amount
39	288-18	Non-deduction of tax on income from property of requisitioned houses of NTC employees	0.024
40	292-18	Irregular expenditure on purchase of IP uplink card	0.850
41	293-18	Irregular expenditure incurred on renovation of hall at RHQ building	0.515
42	294-18	Loss due to less occupation of area of land	18.340
43	295-18	Expected loss due to non-transfer of land / property to NTC of SMSU Building Dadu	13.340
44	297-18	Non-auction / disposal of unserviceable store	0.350
Total			6,002.095

(Rs in million)

Sl. No.	DP No	Subject	Amount
6. SPECIAL COMMUNICATION ORGANIZATION (SCO)			
01	155-18	Non -transfer /mutation of Ownership of Land	-
02	156-18	Irregular expenditure on repair and maintenance of Building Works	1.820
03	157-18	Unauthorized deposit of GST & Income Tax	0.489
04	160-18	Excess Payment of stores	31.392
05	161-18	Irregular payment on account of Building Works	29.600
06	164-18	Irregular payment on account of Satellite Bandwidth Charges	8.185
07	165-18	Irregular expenditure on hiring of consultancy services	10.000
08	166-18	Irregular payment on acquiring IP Transit Services	44.556
09	167-18	Irregular expenditure on project titled replacement of GSM Network of AJ&K	1,621.000
10	177-18	Short Deduction of Sales Tax	0.397
11	190-18	Unsecured recovery on house building advance	1.251
12	191-18	Non-deduction of interest on advances	0.180
Total			1,748.870

(Rs in million)

SL No.	DP No	Subject	Amount
7.		UNIVERSAL SERVICE FUND (USF)	
01	140-18	Irregular award of Lots	12,326.767
02	144-18	Non-removal of discrepancies in MS-03 of RTeS Sibi Lot and unjustified payment	571.437
03	151-18	Non -Recovery of spectrum Fee from PTA and Telecom operators	74,314.186
04	152-18	Non-transfer of USF contribution to AJ&K and GB	768.108
05	153-18	Non-compliance to Corporate Governance (Public Sector Companies) Rule 2013	0
06	247-18	Preparation of USF Project without Financial Projection	0
		Total	87,980.498

ANNEXURE-II

Statement showing the detail of non-pursuance of recovery positions

Sl. No.	File No.	Date	Description	Amount (Rs)	Remarks
01	295/PTA/RA/ Chains Network	23.11.16	Annual Numbering Charges ANC (2014-15 to 2016-17) and late payment fee	195,500	Revised demand note issued on 25.8.16 but no efforts appear for recovery after filing of recovery petition.
02	294/PTA/RA/ Trade Serve Intl	22.12.16	ANC (2007- 08 to 2015- 16) and ANC for short code 8103	515,574	No efforts appear for recovery after filing of recovery petition except forwarding to zonal office, Lahore.
03	293/PTA/RA/ Hajj Enterprises	16.12.16	ANC (2012- 13 to 2015- 16) and late payment fee	290,000	No efforts seems for recovery after filing of recovery petition.
04	146/PTA/RA/ Pak Teletacs (Pvt)	06.02.17	Annual License Fee (ALF) and late payment charges (2004-05)	376,809	The RP was approved by the Authority on 29.12.2011 but could not be filed due to disagreement between RA, Finance and Licensing. The approval of 2011 was filed in February 2017 which showed inefficiency and non-recovery. Further, no efforts appear for recovery after filing of recovery petition except forwarding to zonal office, Lahore.
05	296/PTA/RA/ Liberty Papers	23.11.16	Annual Numbering Charges (2008-09 to 2015-16) and late payment fee	730,000	No efforts appear for recovery after filing of recovery petition except forwarding to zonal office, Lahore.

Sl. No.	File No.	Date	Description	Amount (Rs)	Remarks
06	291/PTA/RA/GCS Global Communication	01.12.16	Payment of wireless license fee / spectrum charges	2,970,000	The RP was approved in December 2011 by the Authority but filed in December 2016. No action was taken against the persons responsible for delay as approved by the Authority vide para 151 to 153 dated 29.12.2016.
07	224/PTA/RA/Mystiks	06.01.17	Annual License Fee (ALF) and late payment charges pertains to 2007	140,933	As per decision of the Authority dated 7.12.2006 RP of filing was approved on 6.2.2013. FD forwarded the case to RA for filing of RP on 20.02.2014. RA Division forwarded the case to L&R Division on 26.02.2016. The L&R asked for fresh approval of the Authority. The RP was filed in February 2017. The deliberate delay from 2007 to 2017 resulted into non-recovery and inefficiency of the management but no action was taken against any one,
TOTAL				5,218,816	

**COMPARATIVE ANALYSIS OF PTA EMPLOYEES
SERVICE REGULATIONS**

PTA ESR 2000	PTA ESR 2004	PTA ESR 2008	Audit Analysis
<p>“Employees” means an officer / official appointed on regular basis.</p>	<p>“Employees” means an officer / official appointed on regular / contract basis.</p>	<p>“Employees” means a person appointed to the service by the Chairman under these regulations and includes Regular, Contractual and a deputationist.</p> <p>The definition further amended on 11th February, 2016 as under: “Employees” means a person appointed to the Service by the Chairman under these regulations on Regular and Contractual basis.</p>	<p>Audit found that PTA had presently 04 categories of employee’s i.e Consultant, Contract (Short Period), Contract (Superannuation) and Regular. The change in the definition of employees a number of times and contradictory definition in Regulations and Act, fringe benefits and others including promotions are questionable. The definition of employees was changed just to oblige the short term contractual employees for promotions.</p> <p>In year 2000 to 2003 PTA had a seniority list but after change in the definition no seniority list was maintained due to which Regular employees especially have been demoralized. Further, according to Government Rules there was no promotion for the contractual employees whereas PTA promoted the contractual employees at their own which resulted in court cases for neglecting Regular Employees.</p> <p>Keeping the above in view, Audit recommends that comprehensive Regulations in the light of Government Rules should be framed at once to avoid inconsistency and anomalies.</p>

PTA ESR 2000	PTA ESR 2004	PTA ESR 2008	Audit Analysis
<p>“Appointment” an appointment made by initial appointment, promotion or transfer in accordance with these regulations shall deemed to have been made on regular basis.</p>	<p>“Appointment” An appointment made by initial appointment, promotion or transfer in accordance with these regulations shall deemed to have been made on regular basis if it is made in the prescribed manner.</p>	<p>“Appointment” Appointment on initial basis to all cadres and grades in the Service shall be made by the Chairman on the basis of the recommendations of the Departmental Selection Committee to be constituted by the Chairman for the said purpose.</p>	<p>It was observed that Regulations 2000 and 2004 specified the procedure very clearly whereas Regulations 2008 and onward were not clearly defining the initial appointment. Regulation 36 clearly defines the appointment of consultant for specialized job and for specific job whereas currently the consultants were appointed frequently without specific TORs and job description. This anomaly has been also reflected in Audit Paras and court cases.</p>
<p>Part-II-Appointment by Promotion.</p> <p>This Chapter comprehensively defines the methods of promotions, posts and eligibility for promotion.</p>	<p>Chapter-V-Appointment by Promotion.</p> <p>The Chapter deals with the appointment by Promotion, eligibility for promotion and procedure for promotion.</p>	<p>Chapter-V-Appointment by Promotion.</p> <p>The Chapter deals with the appointment by Promotion, eligibility for promotion and procedure for promotion.</p>	<p>It was observed that Regulations 2000 clearly define the selection and non-selection posts for promotion. Whereas the Regulations 2004 and 2008 onward only show selection posts. PTA management placed the chapter for promotion in the Regulations but no seniority was maintained, no quota for promotion was defined and the persons eligible for promotion were also not defined.</p> <p>In Regulation 21(4) the delegated powers of the Chairman was further delegated to Departmental Promotion Committee which shall make its own criteria. Therefore, it was required by the PTA management to make promotion criteria part of regulations.</p> <p>Due to this situation PTA employees on regular basis were in same grade and post for</p>

PTA ESR 2000	PTA ESR 2004	PTA ESR 2008	Audit Analysis
			<p>a longer time and have no chances of promotion in future. Due to this most of the employees approached to the Courts. Authority further incorporated a regulation on 5th April, 2017 that the "<i>Authority promotion of an Employee in the last year of his / her service, subject to the conditions that he / she has completed the required length of service for promotion in the post held prior to attaining the age of superannuation</i>".</p> <p>Authority amended the regulations but it was not mentioned the availability of the post or quota for promotion. Hence, the amendment was also questionable, because no DPC condition was fixed which is mandatory for promotions according to the Regulations.</p>
		<p>Regulation 7(3) Any matter not expressly provided for in these regulations, shall be decided by the Chairman.</p>	<p>Audit observed that all powers were vested to the Authority and not to the Chairman. Hence, Regulation 7(3) was not misused by the Chairman. The power of the Authority which was misconstrued in PTA and exercised by the Chairman was against the provisions of the Act.</p>
		<p>Regulation 5 Delegation of Powers. "The Chairman may, by general or special order, delegate to any Member or officer of the Authority all or any of his powers under these regulations.</p>	<p>Audit observed that PTA's Act 1996 vests all the powers with the Authority and the Authority may delegate its powers to the Chairman PTA.</p> <p>Hence, the subject regulation was contradictory to the provisions of the Act and require the attention of the</p>

PTA ESR 2000	PTA ESR 2004	PTA ESR 2008	Audit Analysis
<p>“Seniority” The requirement of seniority is clearly defined in every chapter of these regulations.</p>	<p>“Seniority” Part-X Regulation 45 to 52 define the seniority on initial appointment and on promotion.</p>	<p>“Seniority” The regulation did not specify the subject.</p>	<p>Authority as well as PTA management.</p> <p>Seniority Cadre-Wise: Act of non specifying seniority in the Regulations was tantamount to injustice with the Regular employees. Further, the chapter-V had no significance in the absence of seniority list. Audit understands that the deletion of this chapter was only to oblige the employees on contract basis and blue eyed persons.</p> <p>Audit recommends that PTA management was required to maintain the seniority among the employees cadre-wise.</p> <p>Sanctioned Strength of each Division may be defined and made part of the regulation.</p>
	<p>“Part XIX and XX” Conduct and Discipline. This chapter defines the way of conduct and discipline in detail.</p>	<p>“Termination of Contract” Chapter VI defines the criteria on account of termination of contract and disciplinary proceedings.</p>	<p>It was observed that the employees on contract basis for superannuation can be removed from service on one month notice. Whereas a detailed procedure of removal from service was fixed for the Regular employees. But the committees for disciplinary proceedings were held by the members who are on contract. This anomaly should be removed.</p>

PTA ESR 2000	PTA ESR 2004	PTA ESR 2008	Audit Analysis
	<p>“Part-XXIII” Pay of the Employees</p> <p>The chapter relates to pay and allowances of the employees.</p>	<p>“Part-VII” is related to Pay, Allowances and Incentives and Advances.</p>	<p>This chapter deals with the financial incentive and fringe benefits to PTA employees. All the incentives like proficiency incentive, cash reward and Grant of Annual Increment etc were on the basis of performance of the employees. But the record did not show that these incentives were given on performance base because the incentive was sanctioned across the board by the Authority without considering the performance of each employee.</p> <p>This chapter should be streamlined and performance of the employees should be highlighted at the time of grant of these incentives.</p>
	<p>“Ex-Pakistan Leave” Regulation 75 defines the way of Ex-Pakistan Leave.</p>	<p>“Ex-Pakistan Leave” No Provision</p>	<p>Scrutiny of the record revealed that officers and officials of PTA had granted ex-Pakistan leave but the Service Regulations 2008 had no provision for ex-Pakistan Leave expect study leave (ex-Pakistan). Contrary to the ex-Pakistan leave was granted to the officers and official of short term contract, superannuation contract and regular employees as well. In addition, Q-Loans were also granted to the short term contract employees which were also not covered in the Regulations.</p>
	<p>Regulation 55, Appointment on Acting Charge. Regulation 56,</p>	<p>Regulation 50, Additional Charge, “...where it is not feasible to distribute work as mentioned in sub-regulation (1)</p>	<p>Audit observed that this regulation was entire contradiction because additional charge was a temporary measure and should not be made for a period of</p>

PTA ESR 2000	PTA ESR 2004	PTA ESR 2008	Audit Analysis
	<p>Additional Charge of the Equivalent Post,</p> <p>Regulation 57, Current Charge of the higher post.</p>	<p>above, Additional Charge to vacant post of the same or a higher level post may be entrusted in its entirety to an officer at the same station with approval of the Chairman till further order.”</p>	<p>more than six months. (Sl.No.123 of ESTACODE).</p> <p>Therefore, Audit advised that the regulation should be made in the light of GoP Rules. Further, the additional charge arrangement from 2015 to till date to the incumbents should be discontinued.</p>
		<p>Regulation 101, Training,</p> <p>“The Chairman may require an Employee to undergo such pre-service and/ or in service training or to attend /participate in any seminar, course, meeting, forum organized by ITU/SATRC, etc within or outside Pakistan at any time and for any duration and on such terms and conditions as he may specify in each case.”</p>	<p>Audit observed that PTA had no mechanism of training and capacity building of its employees. During current audit the issue was discussed and it was told that no SOP of training prevailed at present.</p> <p>Audit recommends that an SOP should be available on account of training so that equal opportunities to all employees may be made available. The Authority members and Chairman also availed the facility of training without approval of the Government.</p>
		<p>Regulation 102, Gratuity,</p> <p>“.....an employee shall be entitled to receive such gratuity, at the rate of admissible Gross Salary last drawn for each completed year....”</p>	<p>Audit observed that the rate of Service Gratuity should be in terms of basic pay or multiple of basic pay instead of gross salary and regulation should be amended accordingly.</p>
		<p>Regulation 106, House Rent Allowance in Advance”</p> <p>An Employee, after the expiry of probation period, shall be entitled to House Rent</p>	<p>Audit observed that any allowance which was part of the salary cannot be paid in advance.</p> <p>PTA management may review it in line with GoP Rules and according to the rental ceiling</p>

PTA ESR 2000	PTA ESR 2004	PTA ESR 2008	Audit Analysis
		Allowance in advance on annual basis, in case of house requisition from a third party.	already approved by the Finance Division while approving the pay package 2007.
		House Building Advance. Motor Cycle Advance. Motor Car Advance.	Audit observed that these policies were governed in PTA independently without provision in the service regulations. These policies should be part and parcel of the Regulations.
		Regulation 108, Revision of Pay/Allowances/Perks /Facilities	Audit observed that the pay & allowances, Perks and Facilities were revised in PTA without following any yard sticks and parameters. The DAC in various meetings had already directed to fix a yardstick but no compliance had so far been made.
		Regulation 109, 110, 111 and 112 pertains to Proficiency Incentive, Annual Increment, Eid Allowance and Cash Reward	<p>These regulations state that Chairman may grant basic pay/Gross salary, multiple of running basic pay/Gross salary or proportionate of running basic pay/Gross salary.</p> <p>Audit observed that Regulation was against the basic principles of incentives. The Rules define detailed criteria for grant of such incentives which had not been kept in view while drafting these regulations. Such unlimited financial powers also resulted in misuse of the powers as highlighted separately by Audit.</p> <p>According to GoP Rules the proficiency incentive / honorarium was restricted upto one basic pay.</p> <p>Audit recommends that these</p>

PTA ESR 2000	PTA ESR 2004	PTA ESR 2008	Audit Analysis
			regulations should be reviewed keeping in view the Federal Government Rules.
		<p>Regulation 113, "Group Life Insurance"</p> <p>All the officers/Employees shall be insured under the scheme of Group Life Insurance with attractive rates/ceiling.</p>	<p>The record shows that all the PTA employees were without cover of the Group Insurance which was against the scheme of Federal Government and Assistance Package for the Families of Employees who died in Service already adopted by PTA vide amendment 19th October, 2015 in Employees Service Regulations.</p> <p>Audit highlighted this issue to the PTA management in the different Audit Reports but compliance was not made.</p>

