AUDIT REPORT
ON
THE ACCOUNTS OF
TELECOMMUNICATION SECTOR
AUDIT YEAR 2018-19

AUDITOR-GENERAL OF PAKISTAN

PREFACE

The Auditor-General conducts Audit subject to Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973, read with the Sections 8 and 12 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001. The Audit of Telecommunication Sector was carried out accordingly.

The Directorate General of Audit, Posts, Telegraphs and Telephones, conducted Compliance Audit on the accounts of Telecommunication Sector during July to November for the financial year 2017-18 with the view to report significant findings to the relevant stakeholders. Audit examined the economy, efficiency and effectiveness aspects of the Telecommunication Sector. In addition, Audit also assessed, on test check basis whether the management complied with applicable laws, rules and regulations in managing the resources. The Audit Report indicates specific actions that, if taken, will help the management realize the objectives of the Telecommunication Services. Most of the observations included in this report have been finalized in the light of discussions in DAC meetings.

The Audit Report is submitted to the President in pursuance of Article 171 of the Constitution of the Islamic Republic of Pakistan 1973, for causing it to be laid before the Parliament.

Dated: 14th February, 2019

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

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ABBREVIATIONS & ACRONYMS

ADP	Annual Development Plan
APC	Access Promotion Contribution
ARDs	Annual Regulatory Dues
BOQ	Bill of Quantity
CBC	Community Broadband 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 Organization
DAC	Departmental Accounts Committee
DDO	Drawing & Disbursing Officer
DDP	Delivery Duty Paid
DOMSAT	Domestic Satellite
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
ECAC	Electronic Certification Accreditation Council
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
FFI	Fact Finding Inquiry
FOB	Freight on Board
FWO	Frontier Works Organization
3G	Third Generation
4G	Fourth Generation
GHQ	General Headquarter
GoP	Government of Pakistan
GPoN	Giga Passive Optical Network
GSM	Global Systems of Mobile
IGE	International Gateway Exchange
IPTV	Internet Protocol Television
KKH	Karakaram Highway
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
MNP	Mobile Number Portability
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
OEM	Original Equipment Manufacturer
OFC	Optical Fiber Cable
OTT	Over the Top
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
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 Multiplexing
TIP	Telephone Industries of Pakistan
TT	Telegraphic Transfer

USF	Universal Service Fund
VIM	Virtual Inter-connect Media
VOIP	Voice Over Internet Protocol
WLL	Wireless Local Loop

EXECUTIVE SUMMARY

The Audit Report presents results of the audit of the accounts for financial year 2017-18 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) Telephone Industries of Pakistan (TIP) 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. The Ministry of Defence Production (MoDP) administers NRTC, whereas, Ignite, NTC, SCO, TIP 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 eight (08) 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, SCO and USF provided financial Statements for the year 2017-18, whereas FAB, Ignite, NTC & TIP did not provide the financial statements for the year 2017-18. Therefore, audit could not comment on the financial health and discipline of these entities.

The Directorate General Audit had a budget allocation of Rs 37.405 million for the financial year, a human resource of 47 officers & staff and utilized 3,629 mandays for the audit of these entities.

a. Scope of Audit

The total budgeted expenditure and revenue of Telecommunication Sector for the financial year 2017-18 was Rs 30,756.393 million and Rs 51,446.079 million, respectively. Director General Audit PT&T audited the expenditure of Rs 12,138.147 million (39% of the auditable budget allocation) and revenue of Rs. 5,795.924 million (11% of total revenue) respectively.

b. Recoveries at the instance of audit

The recoveries of Rs 3,183.235 million were pointed out and accepted by the management. Out of total pointed out recovery, an amount of Rs 129.837 million was effected till the finalization of this Report.

An amount of Rs 3,913.05 million was recovered in the calendar year 2018 including the recovery pertaining to previous years.

c. Audit Methodology

The Desk audit could not be conducted because the telecommunication entities had neither maintained their accounts at one central place, nor 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:

- DAC has constituted a committee on the issue of Technology neutrality including (PTA & FAB) members from MoIT.
- PTA and FAB have agreed on completion of frameworks as required in the Telecommunication Policy 2015.
- FAB has got its technical regulations approved from the Board of Directors and submitted them to Federal Government for approval.
- NTC management has initiated revision of its employee's service regulations on the advice of Audit and in compliance of DAC and PAC directives.
- The management of SCO has agreed to comply with the policy for contract employment against various projects.
- The DAC directed USF management to frame a policy on procurement of assets and its ownership against special projects.
- The telecommunication entities have agreed to strengthen the mechanism for timely recovery of receivables from designated customers, telecom operators and others.

e. The Key Audit Findings of the Report;

The Audit Report comprises 69 Audit Paras pointing out serious irregularities:

i. Recoveries were pointed out in twenty-seven (27) cases amounting to Rs 3,053.398 million.[1]

ii. Violation of PPRA Rules were pointed out in eight (08) cases amounting to Rs 565.297 million.[2]

iii. Unlawful Investment in the Bank of Punjab amounting to Rs 1,028 million was noted in one case[3].

iv. Audit noted twelve (12) cases of Internal Control Weaknesses and violation of various procedures amounting to Rs 11,761.735 million[4].

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[1] Para 1.7.1,1.7.2, 1.7.3, 3.6.1 to 3.6.10, 4.5.1, 4.5.2, 5.6.1 to 5.6.9, 6.6.1, 6.5.1 & 6.5.2
[2] Para 3.4.1, 5.4.8, 5.5.1, 5.5.2, 6.4.6, 6.4.7 & 8.4.3
[3] Para 5.4.1
[4] Para 1.6.1 to 1.6.4, 3.5.1 to 3.5.3, 5.5.1 to 5.5.3, 6.5.1 & 6.5.2

f. Recommendations

i) The management of telecom entities should strengthen their receivable management and ensure recovery of outstanding dues.

ii) 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.

iii) The management of NTC should abandon the practice of unlawful investment of funds in excess of working balance.

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

v) The management of FAB should investigate the matter for unlawful launch of 4G services without approval of FAB Board.

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 Receipts	30,756.393 51,446.079
2	Total Formations under Audit Jurisdiction	40	Budget Receipts	30,756.393 51,446.079
3	Total PAOs Audited	03	Budgeted Non-Budgeted Receipts	12,138.147 40,352.282 5,795.924
4	Total Formations Audited	23		58,286.353
5	Audit Inspection Reports	23		58,286.353
6	Performance Audit Report (Under process)	01	PTA as a Regulator	
7	Study Report (Under process)	01	Receivable Management in Telecommunication Sector	

Table 2: Audit observations regarding Financial Management

(Rs in million)

Sl. No.	Description	Amount placed under Audit Observation
1	Unsound asset management	1,028.000
2	Weak financial management	834.632
3	Weak internal controls relating to financial management	40,500.438
4	Others	4,534.686
Total		**46,897.756**

Table 3: Outcome Statistics

(Rs in million)

Sl. No.	Description	Expenditure on Acquiring Physical Assets (Procurement)	Civil Works	Receipts	Others: Budgeted	Others: Non-Budgeted	Total Current Year	Total Last Year
1	Outlays Audited	106.452	135.232	5,795.924	11,896.463	40,352.282	58,286.353	418,207.908
2.	Total Amount under Audit Observations	71.712	14.794	3,053.398	3,707.668	40,050.184	46,897.756	363,801.297
3.	Recoveries Pointed out by Audit	-	-	-		3,053.398	3,053.398	30,400.252
4.	Recoveries Accepted at the Instance of Audit	-	-	-		3,053.398	3,053.398	30,355.939
5	Recoveries Realized at the Instance of Audit (Jan-18 to Dec-18)	*	-	-		2,892.686	3,913.05	6,939.334
		**				20.364		

*: 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 under
1.	Violation of principles of propriety & probity and rules & regulations in public operations.	3,450.340
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.	39,995.978
5.	Recoveries, receivables and overpayments, representing cases of established overpayments or misappropriations of public money.	3,053.398
6.	Others including cases of accidents, negligence etc.	398.040

Table 5: Cost-Benefit

(Rs in million)

Sl. No.	**Description**	**Amount**
1	Outlays audited	58,286.353
2	Expenditure on Audit	37.405
3	Recoverable realized at the instance of Audit	3,913.05
Cost Benefit Ratio of current audit year 2018-19		**1.0:104.6**
Cost Benefit Ratio of last audit year 2017-18		**1.0: 187.6**

CABINET DIVISION

CHAPTER-1

PAKISTAN TELECOMMUNICATION AUTHORITY

1 PAKISTAN TELECOMMUNICATION AUTHORITY

1.1 Introduction

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

- 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 11.10 to the financial statements, in 2009, Ministry of Finance (MoF) had directed PTA to contribute 3% of its receipts per annum to the Competition Commission of Pakistan (CCP) pursuant to the CCP (Collection of fee & charges) Rules, 2009. PTA did not pay such contribution as yet. This resulted into significant understatement of liabilities and overstatement of profit.

1.2.2 As per note 12.1 to the financial statements, the title of land, acquired in 1999, situated at Rawalpindi, was not got transferred in the name of PTA even after elapse of 19 years.

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
14	2016-17	21	21	15	06	72

AUDIT PARAS

1.4 Irregularity & non-compliance

1.4.1 Non-implementation of network Roll-out obligations

According to article 11.1.1 (c) of Long Distance International (LDI) License, the license shall be terminated if network Roll-out Obligations were not fulfilled by the licensees.

In violation of the above, eleven (11) Long Distance International (LDI) Licensees did not fulfill the network roll-out obligations despite lapse of approximately 14 years. PTA management neither took any action nor terminated the licenses as required in the license conditions.

The matter was reported to PAO and management in October 2018. It was replied that at time of commencement of services, rollout obligations mentioned in Clause 3.2.4 were fulfilled by the LDI licensees by operating lease of transmission facility from other operators; mainly PTCL, as per provisions available in clause 3.2.5 of the license. The reply was not acceptable as the LDI licensees fulfilled the requirement through obtaining lease of transmission facilities from PTCL instead of establishing its own infrastructure as required in the license conditions despite lapse of 14 years.

DAC in its meeting held on 15th November, 2018 directed the management to show the details and conditions imposed by PTA for LDI's own infrastructure as explained by the DG licensing. DAC further directed to incorporate the conditions of penalty in the licensing frame work.

Audit recommends that the matter should be investigated with a view to fix the responsibility for violation of license conditions and extension of undue favour.

(DP No. 104)

1.5 Performance

1.5.1 Non-issuance of determinations against telecom operators - Rs 27,351 million

According to the provisions of show-cause notice, the licensee was required to pay the outstanding amount or PTA may take mandatory action within seven days. The licensee is required to explain in writing within thirty days of the issuance of show-cause notice, as to why the license should not be suspended, terminated or any other enforcement order should not be passed against the licensee under section 23 of Telecommunication (Reorganization) Act 1996.

It was observed that fifty two (52) Show Cause Notices (SCNs) were issued to various operators but determination / enforcement orders involving an amount of Rs 27,351,365,812 against sixteen (16) cases could not be finalized during financial year 2017-18.

The matter was reported to PAO and management in October, 2018. It was replied that as per Authority decision in case of non-payment within 19 days, the allocation of microwave spectrum stood cancelled but due to stay orders of the court, the matter was pending. As regard to SCNs on calculation issues the cases were pending in Supreme Court / Islamabad High Court. The remaining show cause notices were disposed off as the licensees had provided their Annual Audited Accounts. The reply was not acceptable, the SCNs on account of calculation issues were not sub-judice. PTA did not decide the SCNs within stipulated time of 30 days. Further, in case of court cases, it was the responsibility of PTA to get the court cases decided in its favour at the earliest by pursuing vigorously.

DAC in its meeting held on 15th November, 2018 directed PTA to pursue the recovery vigorously, get it verified from Audit and get the defaulter companies placed on PTA's website except APC for USF dues defaulters.

Audit recommends that a committee may be constituted to decide the fate of pending SCNs so that recovery could be effected from operators.

(DP No. 115)

1.5.2 Unlawful permissions granted by PTA for 3G & 4G/LTE services

According to section 6 (e) of Pakistan Telecommunication (Re-organization) Act, 1996 the Authority shall ensure that fair competition in the telecommunication sector exists and is maintained. Section 20 states that no person shall establish, maintain or operate any telecommunication system or provide any telecommunication service for which he has not obtained a license under this Act. Section 43 (5) *ibid* further states that every application for allocation and assignment of radio frequency spectrum shall, in the first instance, be made to the Authority which shall, after such inquiry as it may deem appropriate, refer the application to the Board within thirty days from receipt of such application. On receipt of application under section 43 (6) the Board shall classify the telecommunication services and may allocate or assign specific frequencies to the applicant.

PTA Authority allowed provision of 3G & 4G/LTE services to various Mobile, WLL, Fixed Line and Data Service Provider Operators under the umbrella of technology neutrality without obtaining license for the subject services through competitive bidding. PTA Authority granted these permissions without consulting / clearance from the FAB Board of Directors who had the sole Authority for allocation and use of radio spectrum. These un-lawful permissions without recovery of cost or fee deprived the National Exchequer from its revenue. Detail is as under:

S.No	Name of Operators	Description
01	M/s Ufone	Permission granted for provision of 4G/LTE Services in 1800 MHz Band in Pakistan
02	Wireless Local Loop (WLL) Operators	Permission granted for provision of 4G/LTE – Roaming Data Services in AJ&K and GB.
03	Cellular Mobile Operators (CMOs)	Permission granted for provision of 4G/LTE Services in 1800 MHz Band in AJ&K and GB.
04	M/s Telenor	Permission granted for provision of 4G/LTE Services in 1800 MHz Band in Pakistan
05	DVCOM Data (Pvt) Limited	Permission granted for ongoing transmission from EVO to 4G/LTE.

The matter was reported to PAO and management in October, 2018. It was replied that the licenses issued by PTA to the operators were technology neutral and licensees had the right to launch latest technologies available at that time and could not live with old obsolete technologies. The licensees were allowed for up-gradation of technology in the already assigned spectrum in the light of prevailing statutory provisions. Therefore, neither Board's approval was required for regulatory matters, being the mandate of PTA, nor it resulted in any loss to the national exchequer.

The reply was not acceptable as the licenses issued by PTA and frequency/spectrum allocated by FAB to the operators were meant for GSM and 2G services rather 4G/LTE services. The upgradation of services from 2G/GSM to 4G/LTE was different from the concept of upgradation of technology. Furthermore, the permissions granted by PTA for new services were without consulting / clearance from the FAB Board and recovery of cost or levy of fee for the new technologies / services which deprived the national exchequer from its revenue.

DAC in its meeting held on 15th November, 2018 constituted a Committee under the chairmanship of J.S (RA) of Cabinet Division to carry out Fact Finding Inquiry (FFI) within two weeks.

Audit recommends compliance of the DAC directives.

(DP Nos.95,96,98,99 and 100)

1.6 Internal Control Weaknesses

1.6.1 Less deposit of surplus into Federal Consolidated Fund – Rs 6,693.197 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 3,028.758 million into the Federal Consolidated Fund (FCF) on 3rd October, 2017 whereas an amount of Rs 9,721.953 million was required to be deposited into FCF as reflected in the Annual Audited Accounts for the year ended on June 30, 2017. Thus, an amount of Rs 6,693.198 million was less deposited into FCF. Audit further observed that PTA has no approved SoP on the subject matter.

The matter was reported to PAO and management in October, 2018. It was replied that as per Financial Statements "Due to Federal Consolidated Fund" was Rs 9,721.953 million whereas "Due from Public Account" was Rs 6,693.197 million. Hence, the difference of both comes to Rs 3,028.756 million and the same was surrendered to FCF on 3rd October, 2017 immediately after finalization of financial statements in line with PTA Act and practice in vogue. The reply was not acceptable because the Public Account and Federal Consolidated Fund were separate accounts. Amount due to FCF according to the audited financial statements was not deposited as required under the provisions of the Act.

DAC in its meeting held on 15th November, 2018 directed to formulate SoP for calculating and transferring of surplus to FCF and got verified from Audit within 30 days.

Audit recommends that regulations / SoP may be devised and got approved besides fixing of responsibility for non-depositing the due amount to FCF.

(DP No. 114)

1.6.2 Less realization of annual regulatory dues - Rs 2,697.172 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 during 2017-18 revealed that PTA management issued these demand notices by deducting Mobile Network Portability (MNP) Revenue, Discount, Internet Protocol Television (IPTV) Revenue and 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 2,697.172

million. Detail is as under:

Sl. No	Name of Operator	Amount (Rs)
01	M/s Pakistan Mobile Communication Limited	2,619,523,641
02	M/s Telenor Pakistan (Pvt) Limited	57,466,425
03	M/s PTCL	20,182,292
Total		**2,697,172,358**

The matter was reported to PAO and management in October, 2018. It was replied that while calculation of ARDs of PMCL for the year ended on 31st December, 2017 MNP revenue had been added in licensed revenue as approved by the Authority. However, PMCL had challenged the decision of the Authority regarding MNP in the honorable Islamabad High Court (IHC) which was pending adjudication, once finalized same will be implemented accordingly. However, IPTV revenue was not licensed revenue as per PTA's calculations. As regard to FED/Sales Tax, DAC while discussing Audit Para 5.5.1 of AR 2016-17 directed PTA to amend the license condition embodying allowable deductions to resolve the issue. Since the amendment in the license was not practical, therefore, PTA (Functions & Powers) Regulations 2006 were amended by including the explanations on the definition of gross revenue. The reply was not tenable as the license conditions clearly defined the way of calculation of fee on annual gross revenue but did not describe the gross revenue after deducting any other head of account.

DAC in its meeting held on 15th November, 2018 directed the Director (Finance), PTA to prepare a report on the issue and submit it to the Committee.

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

(DP Nos. 107 & 108)

1.6.3 Non-finalization of recovery petitions - Rs 1,393 million

According to clause 9.1 of the SoP for initiating, filing and follow up of recovery petitions, Revenue Assurance (RA) Division will follow up the recovery petitions vigorously. Moreover, regulation No. 20 (1) (d) of Number Allocation & Administrative Regulation, 2011, states that the Authority shall withdraw allocated capacity, if the dues payable to the Authority, on account of annual number allocation fee including penalty, if any, are not cleared within a period of one year from the due date.

PTA management filed two recovery petitions involving an amount of Rs 1,392,886,451 during financial year 2017-18. The recovery petitions were not finalized till date which resulted in non-recovery of the amount involved.

Sl. No	Name of Company	Date of recovery petition	Amount (Rs)
01	M/s Great Bear International (Pvt) Ltd.	18.08.2017	1,392,693,151
02	M/s Teledeals (Pvt) Ltd.	19.04.2018	193,300
Total			**1,392,886,451**

The matter was reported to PAO and management in October, 2018. It was replied that recovery petitions (RPs) were being pursued vigorously in order to initiate recovery process against defaulters. The reply was not acceptable as no effective efforts were made to finalize the recovery petitions which resulted in non-recovery of dues.

DAC in its meeting held on 15th November, 2018 directed PTA to determine exact numbers of total Recovery Petitions (RPs) along-with financial implications and share it with Cabinet

Division as well as Audit within 15 days. It was further directed that all such recovery petitions may be pursued with due diligence.

Audit recommends compliance of the DAC directives.

(DP No. 111)

1.6.4 Forced withdrawal of amount by FBR - Rs 390.686 million

According to Rule 7 of Federal Excise Act, 2005, in case of goods specified in the Second Schedule or such services as may be specified by the Board through a notification in the official Gazette the duty (FED) shall be payable in sales tax mode whereby a registered person manufacturing or producing such goods or providing or rendering such services and a registered person supplying such goods or providing or rendering such services.

It was observed that FBR forcefully withdrew an amount of Rs 390,686,122 on 20-04-2018 on account of Federal Excise Duty (FED) from the collection accounts (National Income Daily Account (NIDA)) of PTA. This was in addition to Advance Tax of Rs 400,000,000 paid by PTA management to FBR. PTA is working as a regulator of telecommunication sector and collecting regulatory dues including contribution for USF and R&D from telecom operators on behalf of Government of Pakistan. Any type of FED was not supposed to be levied on such collection by PTA. These collections were not the revenue of the PTA as franchisor / manufacturer or otherwise.

The matter was reported to PAO and management in October, 2018. It was replied that PTA had already written to Ministry of Finance (MoF) and MoIT that PTA, being a part of Government and its all receipts are part of Federal Consolidated Fund which should not be subject to FED / Tax.

DAC in its meeting held on 15th November, 2018 directed

PTA management to develop a comprehensive proposal on the issue and submit it to Cabinet Division for amendment through Finance Bill.

Audit recommends that the case may be taken up with FBR for non-imposition and non-deduction of FED from the bank accounts of PTA under intimation to audit.

(DP No. 109)

1.7 Receivables

1.7.1 Non-recovery of late payment additional fee - Rs 302.098 million

According to Regulation 23 (7) of PTA (Functions & Powers) Regulations, 2006, the licensee shall be bound to pay such fees as stipulated in the licence within due dates. In addition to any other remedies available to the Authority, late payment of fees shall incur an additional fee calculated at the rate of 2% per month on the outstanding amount, for each month or part thereof from the due date until paid.

PTA management failed to recover an amount of Rs 302,098,222 from M/s Ufone on account of Late Payment Additional Fee (LPAF) on Annual Spectrum Charges for Microwave links, BTS Registration Fee and Radio Spectrum Charges. Audit further observed that LPAF was not taken in the books of accounts due to which financial record did not show the true and fair picture of financial transactions.

The matter was reported to PAO and management in October, 2018. It was replied that determination was issued on 1st June, 2018 for payment of Rs 302,098,224 on account of LPAF to Ufone. In response licensee did not pay the dues and filed appeal in Islamabad High Court (IHC). The IHC vide its order dated 13.06.2018 directed PTA that no coercive measures shall be adopted for the recovery of the disputed dues. Further, the same dues were not recorded in respective General Ledger of Ufone being sub-judice amount. The reply was not acceptable as LPAF was not intimated timely to the operator and due to accumulation of amount, the operator approached the court.

DAC in its meeting held on 15th November, 2018 directed PTA that Late Payment Additional Fee (LPAF) should be transacted properly in the books of accounts not only to watch their realization but also to depict true financial picture in the accounts of the Authority.

Audit recommends compliance of the DAC directives.

(DP No. 106)

1.7.2 Non-recovery of receivables from operators - Rs 68.480 million

According to license condition 4.1 the licensee shall contribute to USF an amount calculated on the basis of 1.5% and R&D contribution @ 0.5% of its annual gross revenue within 120 days of the end of financial year.

PTA management failed to recover an amount of Rs 68,480,171 within stipulated time even after closure of financial year 2017-18 in violation of the above. Detail is as under:

Sl. No	PDP No.	Description	Amount (Rs)
1.	123-19	USF and R&D Contributions	11,897,354
2.	125-19	Radio Base Service Operators	19,341,137
3.	126-19	Annual Radio Frequency Spectrum Fee	35,898,906
4.	127-19	Long Distance International (LDIs)	1,342,774
		Total	**68,480,171**

The matter was reported to PAO and management in October, 2018. It was replied that vigorous efforts were made to clear outstanding dues. In case of RBS dues, the case was taken up with concerned Ministries and Government organizations. PTA also submitted the case of Government defaulters for the perusal of Prime Minister of Pakistan through MoIT. PM Secretariat issued a directive to all concerned Ministries of defaulting organizations directing them to clear the dues of PTA. As regards ARFSF and recovery from LDI's an amount of Rs 35,573 and Rs 21,415 had been recovered, respectively whereas the remaining amount was under litigation. The reply was not acceptable as the pace of recovery was very slow. The court cases may be pursued vigorously for early finalization and recovery of the dues.

DAC in its meeting held on 15th November, 2018 directed PTA to recover the amount from the defaulters and get it verified from Audit. DAC also asked D.S (RA) Cabinet Division to monitor the issue.

Audit recommends compliance of the DAC directives.

(DP Nos. 123,125,126 & 127)

1.7.3 Non-recovery of numbering charges - Rs 28.449 million

According to para 18 of Number Allocation & Administration Regulations, 2005 the operator is liable to pay annual numbering charges by 31st July each year. The payment of Annual Numbering Fee for number allocation shall be made in advance at the time of application. In case of delay, the licensee shall be liable to pay a penalty @ 10% per month on the amounts outstanding if the dues are not paid by 31st July each year.

PTA management issued demand notices of Rs 28,448,900 but failed to recover the requisite amount during the year 2017-18. The companies showed their concerns on PTA's demand. The Authority constituted a committee with the mandate to examine the concerns of the operators and determine actual receivables. The committee submitted its report and reduced the amount to

Rs 6,244,567. However, the committee did not mention any Regulations / SoP in support of its recommendations for reduction in receivables. Therefore, Audit is of the view that total amount of Rs 28.449 million should be recovered.

The matter was reported to PAO and management in October, 2018. It was replied that committee was of the view that since NAAR, 2005 was notified on 3rd August, 2005, hence all prior allocation(s) which were inactive / cancelled before the said notification of regulations 2005 should not be considered for calculation of outstanding dues. As regard to recovery, the recovery petitions against two companies amounting to Rs 3,561,200 had already been filed, matters of one company of Rs 2,612,567 was subjudice in civil court and recovery of Rs 70,800 against Jafcom had already been made. The reply was not acceptable because documentary evidence of allocation of numbering plan prior to 2005 was not provided. Further, the reduction of amount by the committee was without any support of regulations.

DAC in its meeting held on 15th November, 2018 directed the Director (Numbering) of PTA to carry out Fact Finding Inquiry (FFI) and to fix responsibility in the matter.

Audit recommends compliance of the DAC directives besides recovery of the amount.

(DP No. 112)

CHAPTER-2

FREQUENCY ALLOCATION BOARD

2. FREQUENCY ALLOCATION BOARD

2.1 Introduction

Frequency Allocation Board (FAB) was 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 Audit 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
14	2016-17	05	04	04	00	100

AUDIT PARAS

2.4 Irregularity and non-compliance

2.4.1 Unjustified allocation of additional frequency

According to Regulation 6 (a) (ii) of FAB Technical Regulations, 2015 the Board is responsible to coordinate assignment of frequencies with other Boards when the frequencies are required for 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 is received by the Board through PTA.

It was observed that M/s CM Pak (Zong) lodged a complaint to FAB regarding interference in its allocated spectrum during auction of 2014. However, FAB failed to clear the interference in the previously assigned frequency and allocated the additional frequency spectrum on 19th February, 2016 for two years. This resulted into unjustified allocation of additional frequency.

The matter was reported to PAO and management in October 2018. It was replied that FAB had the exclusive authority to allocate, assign and monitor frequency spectrum all over Pakistan. FAB carried out monitoring of radio frequency spectrum and reported to concerned quarters i.e. PTA / PEMRA for necessary enforcement action. The reply was not acceptable as FAB was responsible to provide interference free spectrum instead of allocating additional frequency.

DAC in its meeting held on 15th November, 2018 constituted a committee comprising of JS (RA) and CF&AO of Cabinet Division to carry out Fact Finding Inquiry (FFI) within two weeks.

Audit recommends compliance of the DAC directives.

(DP No.129)

2.5 Performance

2.5.1 Unauthorized use of frequency spectrum and upgradation of networks by operators without approval of the Board

According to section 43 (1) of Pakistan Telecommunication (Re-organization) Act, 1996 the Board shall have exclusive authority to allocate and assign portions of the radio frequency spectrum to the Government, providers of telecommunication services and telecommunication systems. Section 43 (6) *ibid* stipulates that the Board shall classify the telecommunication services and assign spectrum to the applicant. Regulation 16(j) of FAB technical regulations 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.

It was observed that PTA granted permissions to various telecom operators for 3G & 4G/LTE services without permission / approval of the Frequency Allocation Board who had the sole Authority for allocation and use of radio spectrum. Detail is as under:

S.No	PDP No	Name of Operators	Description
01	128 & 131-19	M/s Ufone	4G/LTE Services in 1800 MHz Band in Pakistan
02	133 & 136-19	Wireless Local Loop (WLL) Operators	4G/LTE – Roaming Data Services in AJ&K and GB and Pakistan (1900 MHz)
03	139-19	M/s Telenor	4G/LTE Services in 1800 MHz Band in Pakistan

The matter was reported to PAO and management in October, 2018. It was replied that the use of 2G spectrum for 3G and 4G by CMOs and WLL operators was allowed by PTA. FAB had not approved any such change of technology. PTA granted all the approvals without seeking formal approval of the Board. To that effect, FAB had already highlighted the issue with its members vide FAB Letter No. FAB/U-3/2016-02 Dated 10th May 2018. The reply was not acceptable, as FAB had taken over the functions of the Pakistan Wireless Board in accordance to the section 42 of the Act. Further, section 5(4) of Pakistan Wireless Board requires FAB to investigate all complaints of interference and take appropriate action to effect the clearance thereof. Moreover, section 5(6) and 5(10) ibid require FAB to advise the department (T&T/Govt/PTA) on standardization and use of equipment (technology) and to advise on regulating such technical and traffic matters that affect the radio networks as whole in Pakistan. Further, according to section 43 (6), the Board shall classify the telecommunication services and assign spectrum to the applicant.

DAC in its meeting held on 15th November, 2018 constituted a Committee under the chairmanship of J.S (RA) of Cabinet Division to carry out Fact Finding Inquiry (FFI) within two weeks.

Audit recommends compliance of the DAC directives.

(DP Nos.128,131,133,136,139 & 252)

MINISTRY OF DEFENCE PRODUCTION

CHAPTER-3

NATIONAL RADIO AND TELECOMMUNICATION CORPORATION

3 NATIONAL RADIO & TELECOMMUNICATION CORPORATION PRIVATE LIMITED (NRTC)

3.1 Introduction

National Radio and Telecommunication Corporation (NRTC) was incorporated as a private limited company on 16th February, 1966. NRTC is 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, Jamming Solutions, production of battery eliminators and distribution point boxes for PTCL and NTC.

The Corporation is managed by a Board of Directors headed by Secretary, Ministry of Defence Production.

3.2 Comments on Budget and Accounts

3.2.1 As per note 8 to the 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 equal to the amount of depreciation charged in the year in accordance with the policy.

3.2.2 As per note 23 to the financial statements, security deposits increased in current year by more than 1763% as compared to last year, however, complete explanation was not given in the financial statements.

3.2.3 The debt collection period in the current year was increased to 171 days from 129 days of previous year whereas the creditor's payment period was decreased to 375 days from 411 days of previous year which depicts weak working capital management. This state of affair also showed weak financial management on the part of administration.

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	05	00	100

AUDIT PARAS

3.4 Irregularity & non-compliance

3.4.1 **Procurements without tender – Rs 37.920 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 the Authority from time to time. 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. Rule 15(1) *ibid* states that a procuring agency, prior to the floating of tenders, invitation to proposals or offers in procurement proceedings, may engage in pre-qualification of bidders. Rule 42 (c) further stipulates that a procuring agency shall only engage in direct contracting if the direct procurement concerns the acquisition of spare parts or supplementary services from original manufacturer or supplier and the same are not available from alternative sources.

It was observed that NRTC management incurred an expenditure of Rs 37,919,568 on procurement of various items without calling open tenders during 2017-18 in violation of the above. Audit further observed that the expenditure against Sl.No.03 below was incurred on the basis of pre-qualification whereas the record of pre-qualification pertained to financial year 2014 and the process for award of work started in June 2017 pertaining to financial year 2017-18. Procurement of cable and grinder was made on the basis of Original Equipment Manufacturer (OEM) but proprietary / OEM certificates were not available on record. Therefore, expenditure incurred on procurement stands irregular. Detail is as under:

Sl. No	PDP No.	Descriptions	Amount (Rs)	Remarks
01	239-19	Procurement of desktop computers & Furniture	22,717,957	Procurement without tender.
02	241-19	Provision / fixing of porcelain tiles and fence wall in Telecom School / college Haripur	6,682,883	
03	240-19	Procurement of semi-automatic tool grinder	1,978,124	Procurement without having OEM / proprietary certificates
04	242-19	Procurement of heliax cable and coaxial cable,	6,540,604	
		Total	**37,919,568**	

Audit pointed this out to the management and PAO during October 2018. The management replied that procurements were made on emergency basis through quotations from the registered vendors. Procurement to some extent was made after obtaining prior exemption of PPRs from the Principal Accounting Officer (PAO) – i.e Secretary MoDP. In other cases the procurement was made on the basis of pre-qualification, repeat orders within 15% of the original purchase orders and from OEM being proprietary items. The reply was not acceptable as the procurement was made without tenders. The urgency, proprietary / OEM certificates were not available in record in support of the reply. Prior exemption certificates of PAO and documentary evidence regarding repeat orders were also not made available to Audit. Further, the pre-qualification was for the year 2014 whereas the work was executed in 2017-18.

DAC in its meeting held on 19th December, 2018 directed NRTC management to follow the Rules for procurements and obtain clarification from PPRA on timeline of pre-qualification. DAC further directed that the cases may be presented before the Board of Directors for decision and detailed verification of the facts as stated in the reply within one month.

Audit recommends for immediate compliance of the DAC directives.

(DP Nos. 239 to 242)

3.5 Internal Control Weaknesses

3.5.1 Unjustified supply of additional jamming stations and non-recovery- Rs 42.909 million

According to note below Annexure-B of contract No.2016 dated 30th March, 2016, given number of jamming stations are based on the initial technical survey. However, actual jamming stations may vary as per site requirements and any increase / decrease in jamming stations will be catered for in invoice / bills. Installation / procurement of additional jamming stations besides the quantity mentioned in this contract would require a new purchase order from the user placed to NRTC.

NRTC management supplied eleven (11) additional jamming stations without receipt of any request / purchase order from the client. NRTC management generated invoice bearing No.FN/PP-Home-1718/0124 dated 2nd May, 2018 valuing Rs 42,909,480 against additional jamming stations but failed to recover the requisite amount till date. Audit was of the view that NRTC should obtain confirmation / purchase order from the client before provision of additional jamming stations to secure the NRTC dues.

Audit pointed this out to the management and PAO during October 2018. It was replied that above-mentioned contract was a turnkey project for jamming solution in Punjab Jails. In such projects actual deliverables and installation may vary in order to make the solution functional. As per clause 6.3 of the contract agreement, balance 50% payment would be released on the basis of actual jamming solution installed. The additional jammers were installed to make the system functional and claim had been lodged. The case was being pursued vigorously and amount would be realized soon. The reply was not tenable because NRTC management did not receive any request or purchase order from the client but NRTC supplied additional store which resulted in non-receipt of payment.

DAC in its meeting held on 19th December, 2018 directed NRTC management to recover the amount of additional jamming station within two months and get it verified from Audit.

Audit recommends compliance of the DAC directives.

(DP No. 236)

3.5.2 Less charging of receipts against delivered store – Rs 7.135 million

According to amended clause 13 of contract agreements, payment against this contract shall be paid through a release order. Directorate of Naval Intelligence (C) shall process the release order and forward to CMA (DP), Rawalpindi. On receipt of release order CMA (DP) Rawalpindi shall issue the cheque in equivalent Pak Rupees at prevailing exchange rate.

NRTC management made a contract agreement for the supply of vehicle based audio video surveillance system and pocket size IMSI catcher. The schedule of stores to be supplied was prepared in US$ (1 US$ equivalent to PKR 101.70 on 1.6.2015 and PKR 101.20 on 17.6.2015). The invoices were issued in 2016 and 2017 in Pak Rupee on the rates of 2015 instead of exchange rate at the time of payment. This resulted in less charging and loss to NRTC. Detail is as under:

Sl. No	Invoice No. & date	US$ rate claimed	Prevai-ling US$	Differ-ence US$	Total US$	Less charging (Rs)

01	21 & 51 of 6.10.16 & 14.4.17	101.70	132.00	30.3	58,100	1,760,430
02	0022 dated 6.10.16	101.29	132.00	30.71	175,000	5,374,250
03	0052 dated 14.4.17					
					Total	**7,134,680**

Audit pointed this out to the management and PAO during October 2018. It was replied that bill had been revised as advised by Audit to cover the fluctuation loss and Audit would be informed in due course of time.

DAC in its meeting held on 19th December, 2018 directed NRTC management to recover the amount within three months and get it verified from Audit.

Audit recommends compliance of the DAC directives.

(DP No. 235)

3.5.3 Deduction of LD charges due to delayed finalization of purchase orders – Rs 6.115 million

According to clause 7 of the contract agreement No.Proc.1-1/2/091116/1599/NRTC dated 9th June, 2017 all goods (Materials) are required to be delivered Duty Delivery Period (DDP) basis at PTCL's designated stores Karachi, Lahore, Islamabad within the decided period specified in Formal Purchase Order.

It was observed that M/s PTCL placed a purchase order on 22nd February, 2017 for supply of DP boxes and other items. The 2nd purchase order was signed by the PTCL management on 3.3.2017 whereas the same was signed by NRTC management on 26.5.2017 after a delay of three months. The record showed that NRTC failed to provide the requisite store within the scheduled time against two purchase orders which resulted in deduction of Liquidated Damages of Rs 6,115,046. Audit further observed that due to delayed signing of the contract by NRTC without approaching PTCL for amendment in the delivery dates, LD charges were imposed.

Audit pointed this out to the management and PAO during October 2018. It was replied that case for waiver of LD had already been taken up with PTCL Authorities and was being pursued vigorously.

DAC in its meeting held on 19th December, 2018 directed NRTC for a Fact Finding Inquiry (FFI) in the instant case and fix responsibility for such negligence.

Audit recommends that matter should be investigated to ascertain the responsibility for delay in signing of contract and deduction of LD charges along with effecting recovery of the deducted amount.

(DP No.233)

3.6 Receivables

3.6.1 Non-recovery due to non-issuance of invoice– Rs 599.784 million

According to clause 13 of the contract agreement No.DGSW/9366/Engr/2017 dated 30th June, 2017 the delivery period was fixed as 4 – 6 months from the date of advance payment. Clause 3.2 & 3.3 states that 70% amount of delivered store would be released to the supplier against the provision of bill, delivery advice and inspection note. Balance 10% would be paid on issuance of Certified Receipt Voucher (CRV).

NRTC made a contract agreement with Civil Works Organization (CWO) for supply of Wideband Jammer (WB-300) Vehicle Mounted Jammer. NRTC was bound to supply the requisite store within 6 months. However, as per delivery advice No.SL/4-191/CWO/2017 the store was supplied on 7th June, 2018 with a delay of 5 months and bill / invoice for payment was not issued till date. This resulted in non-recovery of 80% payment of Rs 599,784,000/-.

Audit pointed this out to the management and PAO during October 2018. It was replied that the Jammers were of two type as ordered in the contract. Manpack Jammers had been delivered and bill had been raised. The vehicle mounted jammers were under installation and inspection phase, therefore, the bill was not issued. The reply was not acceptable as despite delivery of the store, bills were not issued for recovery.

DAC in its meeting held on 19th December, 2018 directed NRTC management for recovery of the amount and its verification by Audit within three months.

Audit recommends compliance of the DAC directives.

(DP No.248)

3.6.2 Non-recovery of 50% LC balance and freight charges – Rs 307.826 million

According to clause 13 of the contract agreement No.33/ET/2013-2014/Army and clauses of other contracts, balance 50% of LC of the delivered / partially delivered store, and GST would be paid against suppliers bills duly supported with delivery advice, inspection note, CRV, list of deleted parts and sales tax invoice etc. The allied charges i.e freight and insurance charges would be paid at actual on submission of paid documents.

It was observed that NRTC management failed to recover the freight and insurance charges amounting to Rs 307,826,154. The freight and insurance charges had been booked in accounts but invoices for recovery were not issued. This resulted in financial loss to the corporation due to non-recovery.

Audit pointed this out to the management and PAO during October 2018. It was replied that final bill would be raised after completion of delivery. The purchaser had informed that after supplying the full delivery and actual freight charges the case for budget allocation would be processed accordingly. The reply was not tenable as the amount had been booked in the accounts but invoices were not issued for recovery.

DAC in its meeting held on 19th December, 2018 directed NRTC management for early completion of the inspection, recovery of the amount and its verification from Audit.

Audit recommends compliance of the DAC directives.

(DP No.249)

3.6.3 Non-recovery of outstanding dues against delivered stores – 113.909 million

According to clause 11 of contract No.2016/17/Sig Eqpt/Proc, clause 1(iv) of purchase order No. TLP (065) FMS (P3) (033) 1.1/17/1878, clause 13 of contract No. 80662/Ord/DB/PC/ Expl/NRTC/ VMJ-01, clause 3 of contract and clause 4.1 & 4.2 of contract No.459387/P-45, 50% advance payment and balance 50% payment will be made after delivery of equipment / inspection. Further in some cases 100% advance payment was required to be recovered.

NRTC management failed to recover the dues amounting to Rs 113,909,043 against the delivered store as per the clauses of the contract agreements in violation of the above during 2017-18.

Audit pointed this out to the management and PAO during October 2018. It was replied that payment was pending due to non-availability of funds. Reminder had been issued to the concerned agency. The Bills had already been raised on completion of documents required in the contract for release of payment. The case was taken up with concerned agencies and amount would be realized shortly. The reply was not tenable as the NRTC management failed to receive its dues against delivered stores.

DAC in its meeting held on 19th December, 2018 directed NRTC management to recover the amount within three months and get it verified from Audit.

Audit recommends compliance of the DAC directives.

(DP No. 245)

3.6.4 Non-recovery of dues against delivered stores – Rs 98.323 million

According to amended clause 3 of contract agreement No.1516/B/C-120-Sys/HID/LOG/SPD dated 20th October, 2016; 50% advance payment will be made to NRTC Haripur in Pak Rupee on placement of formal purchase order / contract and 50% balance payment will be released after completion of delivery, inspection / acceptance. Terms of payment No.2.2 of purchase order No.E00765-16D dated 15th December, 2016 states that the purchaser was required to make 100% advance payment within two weeks after the purchase order through an irrevocable LC to be opened by M/s ASELSAN. Amended clause 13 of contract agreement stipulates that payment against contracts shall be paid through a release order. Directorate of Naval Intelligence (C) shall process the release order and forward to CMA (DP), Rawalpindi. On receipt of release order CMA (DP) Rawalpindi shall issue the cheque in equivalent Pak Rupees at prevailing exchange rate.

In violation of the above, NRTC management failed to recover the dues amounting to Rs 98,322,968 during 2017-18 despite successful delivery of stores / equipment to the clients. Audit further observed that in some cases NRTC failed to resolve the observations in the installed system and in other cases the invoices were not issued which resulted in non-recovery of the dues. Detail is as under:

Sl. No.	PDP No.	Description	Name of client	Amount (Rs)
01	234-19	Balance payment against contract No.1516/B/C-120-Sys/ HID / LOG / SPD dated 20th October, 2016	M/s Strategic Planning Division (SPD)	49,413,000
02	247-19	Payment against purchase order No.E00765-16D dated 15th December, 2016	M/s Aselsan Turkey	25,274,698
03	243-19	Contract agreements in June 2015 for supply of vehicle based audio video surveillance system and pocket size IMSI catcher.	M/s Naval Headquarter	23,635,270
			Total	**98,322,968**

Audit pointed this out to the management and PAO during October 2018. It was replied that the amount was pending due to technical issues which were being resolved by NRTC. The observed amount would be recovered from the payable claim of M/s Aselsan Turkey and would be effected accordingly. As regards Naval Headquarter the case for re-issuance of cheque was under process and latest reminder was also issued to the concerned agency on 02nd Nov, 2018. The reply was not tenable as due to non-completion of the inspection by NRTC, non-issuance of timely invoices and non-reconciliations, the amounts could not be received.

DAC in its meeting held on 19th December, 2018 directed NRTC management to recover the amounts within three months and get it verified from Audit.

Audit recommends compliance of the DAC directives.

(DP Nos. 234,247 and 243)

3.6.5 Non-receipt of payment due to delayed supply Rs 67.765 million

According to clause 7 of contract agreement No.1690501/ B-1704/360721 dated 17.06.2017 the store will be supplied within three months from signing of contract. Clause 13 states that 60%

payment will be released upon successful acceptance of trials at NRTC Factory in the presence of three members team. Balance 40% payment will be released upon successful SATs at user premises, completion of training and issuance of Certified Receipt Voucher (CRV).

It was observed that NRTC made a contract agreement with Directorate of Procurement Navy on 17th June, 2017 having value US$ 646,000 (1 US$ = Rs 104.90). The record showed that delivery was made vide Advice No.SL/4-187/DP(N)/IED-EOD/17 dated 9th June, 2018 with a delay of 9 months. Detail of the trials, inspection note and CRV were also not available in the record. Audit further observed that NRTC did not issue payment invoice to the Director Procurement Navy despite the delivery of the store. This resulted into non-recovery of US$ 646,000 (Equivalent to Pak Rs 67,765,400).

Audit pointed this out to the management and PAO during October 2018. It was replied that store was delivered on 09.06.2018 and the site inspection was under process as per ATP (Acceptance Test Procedure) and bills would be raised after final acceptance as per contract. The reply was not tenable as the first delivery was delayed and after delivery inspection had not completed till date which resulted in non-receipt of payment.

DAC in its meeting held on 19th December, 2018 directed NRTC management to recover the amount as per contract clauses and get it verified from Audit.

Audit recommends compliance of the DAC directives.

(DP No. 246)

3.6.6 Non-receipt of exchange rate fluctuation charges – Rs 35.681 million

According to clause 15 of special conditions appendix to development contract No.33/ET/2013-14/Army dated 25th June, 2014, exchange rate was taken as 1 US$ = Rs 100/-. However, any fluctuation in the rates of exchange at the time of opening of LCs and subsequent variation at the time of payment would be adjusted on production of bank documents payable at actual. In case of increase in US dollar rate, the purchaser will make payment of the additional amount to the NRTC, on allocation of funds from GHQ. Amount saved by NRTC (if any) due to reduction in US dollar rates would be deposited into Government treasury through Treasury Receipt.

It was observed that agreement was made between NRTC and Director General Munitions Production for production and supply of V/UHF Software Defined Radio Sets (SDRs). A purchase order valuing US$ 5,286,094 @ Rs 100/- per US$ was placed to M/s Aselsan Turkey on 4.2.2015 and corresponding LC was opened. The requisite payment was received by NRTC @ Rs 100/- on 26.9.2014 whereas NRTC had made payment / provision for payment was created @ Rs 105.1 and 121.6 per US$. This resulted into loss of Rs 35,681,134 to NRTC due to non-receipt of exchange rate fluctuation. The detail is as under:

Amount received by NRTC			**Amount paid / provision by NRTC**			**Remarks**
US$	**Exch. Rate**	**Pak Rs (A)**	**US$**	**Exch. rate**	**Pak Rs (B)**	
Contract No. 33/ET/2013-14/Army dated 25th June, 2014						
5,286,094	100	528,609,400	4,757,484	105.10	500,011,631	26.2.2016
			528,609	121.60	64,278,903	30.6.2018
		528,609,400			**564,290,534**	
Loss (A-B) (528,609,400 – 564,290,534) = Rs 35,681,134						

Audit pointed this out to the management and PAO during October 2018. It was replied that exchange fluctuation charges were to be received as per clause 15 of the contract. An amount of US$ 528,609.00 had not been made to the Principal Supplier i.e M/s Aselsan. Therefore, actual fluctuation loss was still not determined. Final bill would be issued after effecting the recovery payment of Aselsan and full delivery of the contracted store to Pak Army. The reply was not tenable as the fluctuation charges had been booked in the ledgers, hence, should be recovered.

DAC in its meeting held on 19th December, 2018 directed NRTC management to reconcile the matter at the earliest and recover the actual fluctuation charges and get it verified from Audit.

Audit recommends compliance of the DAC directives.

(DP No.244)

3.6.7 Non recovery due to non-execution of contract US$ 245,000 (equivalent to Pak Rs 32.830) million

According to Rule 26 to 28 of GFR Vol-I, it is the duty of the departmental controlling officers to see that all sums due to Government are regularly and promptly assessed, realized and credited to accounts. No amount due to Government should be kept outstanding without sufficient reason. Para 19 (i) (iii) (ix) of GFR Vol-I further states that the terms of a contract must be precise and definite and there must be no room for ambiguity or misconstruction therein. Standard forms of contracts should be adopted wherever possible. Provision must be made in contracts for safeguarding Government property entrusted to a contractor.

NRTC management failed to recover 50% balance payment US$ 245,000 (Pak Rs 32,830,000) from Military Industries Corporation (MIC) Kingdom of Saudi Arabia despite execution of work titled “on job training and production process assistance”. It was further observed that no proper contract agreement was made to secure the interest of NRTC.

Audit pointed this out to the management and PAO during October 2018. It was replied that purchase order was placed by the MIC, KSA for on job training and production process assistance and 50% payment had been received. The project would be completed on 11th April, 2019 therefore balance payment would be received after its completion / culmination. The reply was not acceptable as invoice for payment was issued for 100% payment. Balance 50% could not be recovered due to non-execution of agreement duly mentioning the terms of payment.

DAC in its meeting held on 19th December, 2018 directed NRTC management to recover the amount, get it verified from Audit and execute proper agreements in future to secure the interest of NRTC.

Audit recommends compliance of the DAC directives.

(DP No.230)

3.6.8 Non-recovery on account of Service Level Agreement – Rs 10.375 million

According to terms and conditions of Service Level Agreement (SLA) 100% Advance payment is required to be recovered against the contract.

NRTC management submitted quotations / rates for the provision of Service Level Agreement with the Inspector General of Prison, Government of Sindh, Karachi on 28th July, 2017. The agreement was made but 100% advance payment of Rs 10,375,177 was not received as required in terms and conditions.

Audit pointed this out to the management and PAO during October 2018. It was replied that NRTC management had taken up the case of pending amounts with Inspector General of Prisons Sindh Karachi vide letter No. SL/4-211/CPH/2018 dated

12.10.2018. In response, IG Prisons Sindh had requested the Secretary Home department for release of outstanding dues to NRTC vide letter No. SB-1/29186/94 dated 19.10.2018. The case was being pursued actively and audit would be informed soon in due time. The reply was not tenable as advance payment as per agreement was not matured despite lapse of considerable time.

DAC in its meeting held on 19th December, 2018 directed NRTC to recover the amount within three months and get it verified from Audit.

Audit recommends compliance of the DAC directives.

(DP No. 238)

3.6.9 Non-receipt of balance payment against final acceptance certificate – Rs 3.700 million

According to clause 7 of contract agreement No.10/360/C&IT-2/15/UGS-2/504, all payments to the contractor will be released on achievement of milestones. After signing of the contract 90% payment will be released as advance and balance 10% will be released at the time of issuance of Final Acceptance Certificate (FAC) after installation of UGS systems on end user sites.

NRTC management made a contract agreement with Commandant Military College of Signals, Rawalpindi for supply of 100 x Un-attendant Ground Sensors (UGS). The work was completed in June 2016 as per clause-4 of the agreement, however, invoice for balance 10% payment was issued on 24.7.2018 with a considerable delay. This resulted in non-receipt of balance payment of Rs 3,700,000 till date.

Audit pointed this out to the management and PAO during October 2018. It was replied that 100x UGS systems were required to be installed in the sensitive areas and bill could only be raised on receipt of CRVs and Provisional Acceptance Certificate. In this regard clause 1.3 regarding provisional acceptance was self explanatory that "Acceptance signed by End User's field unit representative upon successful delivery and installation of UGS system at purchaser's defined End User site and subsequently by the board as referred in clause 1.7. Major amount i.e 90% was received in advance and for remaining amount bill was issued on completion of final 100x UGS. The remaining amount was being pursued vigorously and latest reminder had been issued besides arrangement of meeting with concerned. The reply was not tenable as the work was completed in June 2016 but the invoice was issued with considerable delay.

DAC in its meeting held on 19th December, 2018 directed NRTC management to recover the amount within three months and get it verified from Audit.

Audit recommends compliance of the DAC directives.

(DP No. 237)

3.6.10 Non-recovery of security deposit upon expiry of warranty period – Rs 1.119 million

According to clause 10 (c) of the contract agreements, the supplier will deposit 5% amount of total value of the contract, as security and shall be released on completion of warranty period. Clause 12 (a) of the agreement states, that the supplier will provide warranty for all the stores / equipment for a period of 12 months from the date of delivery. Warranty period will start after the date of equipment handed over to the purchaser.

NRTC management did not recover the security deposits amounting to Rs 1,119,045 from the clients after expiry of warranty period. This indicated weak financial and receivable management.

Audit pointed this out to the management and PAO during October 2018. It was replied that 95% of the contract's value had been received and only 5% was pending which was retained as security deposit till completion of warranty period. The bills against each contract had been issued and would be realized shortly.

DAC in its meeting held on 19th December, 2018 directed NRTC management to provide all relevant record including proprietary certificate to Audit for verification.

Audit recommends compliance of the DAC directives.

(DP No.228)

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

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

4.3 Status of Compliance with PAC Directives

<u>Ignite National Technology Fund,</u>
<u>Ministry of Information Technology</u>

No PAC meeting has been convened till date.

AUDIT PARAS

4.4 Irregularity & non-compliance

4.4.1 Expenditure on arrangement of events without tender - Rs-3.234 million

As per Rule 12 (1) of Public Procurement Rules 2004, all procurement opportunities over one hundred thousand and up to rupees two million should be advertised on authority's website. These opportunities may also be advertised in print media if deemed necessary by procuring agency.

Contrary to the above, it was observed that Ignite National Technology Fund Company management incurred an expenditure of Rs 3,234,171 on arrangement of an event, advertisement of web banners and contract signing ceremonies. The expenditure on this account was incurred without floating tender on PPRA website. The detail is as under:

Sl. No	PDP No	Description	Amount (Rs)
1	185-19	Arrangement of an event titled "DigiSkill Conclave"	1,809,171
2	186-19	Advertisement of web banners and contract signing ceremonies	1,425,000
Total			**3,234,171**

Audit is of the opinion that due to non-compliance of PPRs, the expenditure on arrangement of an event, advertisement of web banners and contract signing ceremonies was incurred irregularly.

Audit pointed this out to the head of the formation /management during September, 2018. It was replied against Sr. No.1 that advertising agencies on the panel were appointed through an open and transparent competition in accordance with the guideline provided by Press Information Department. The advertising agencies performed all services related to creating awareness and media campaigns through all possible means including; events, roadshows, sponsored projects and programs or in accordance with any other instructions to the Advertising Agency by the Company. Regarding Sr. No.2, it was decided to float the request for proposal through press advertisement as well as digital platforms that had relevant national and international audience. In this regard Pakistan's top two technology websites i.e. Propakistani.pk and Techjuice were selected on the basis of their traffic stats and profile. The replies were not acceptable as the panel advertising agencies were hired for publication of advertisements in the newspapers and not for the event management etc. The event of web banners and contract signing ceremonies were required to be advertised on PPRA website and in newspapers in order to obtain economical rates from the market.

DAC in its meeting held on 29th November, 2018 directed Ignite management to get the expenditure regularized from the Board of Directors.

Audit recommends compliance of the DAC directives.

(DP No.185 &186)

4.5 Receivables

4.5.1 Overpayment on account of Prime Minister Scholarship Program – Rs 3.347 million

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

During review of files relating to Prime Minister Scholarship Program for the talented students of Baluchistan Batch-I & II, it was observed that Ignite National Technology Fund Company management over paid an amount of Rs 3,346,864 to different schools / colleges during the year 2017-18.

Audit pointed this out to the head of the formation /management during September, 2018. It was replied that the company had already taken up the matter of recovery.

DAC in its meeting held on 29th November, 2018 directed Ignite management to recover the amount and get it verified from audit.

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

(DP No.192)

4.5.2 Non-recovery of R&D contributions from operators - Rs 1.807 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 the 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, Ignite Technology Fund management failed to recover an amount of Rs 1,807,300 on account of R&D contribution from various telecom operators during the year 2017-18.

Audit pointed this out to the head of the formation / management during September, 2018. It was replied that the efforts were being made to recover the amount.

DAC in its meeting held on 29th November, 2018 directed Fund Management to recover the amount and get it verified from Audit.

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

(DP No.191)

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 caused its accounts 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 the Audit Report despite continuous pursuance by the Audit. Hence, no comments on accounts could be rendered.

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 Irregularities and non-compliance

5.4.1 **Un-authorized investment of funds - Rs 1,028 million**

According to section 41 of Pakistan Telecommunication (Re-organization) Act 1996 there is no provision which allow NTC to make investment of surplus funds. Finance Division O.M No F.4(1)/2002-BR-11 dated 02.07.2003 (Investment Policy) provides that working balance limit of each organization should be determined with the approval of Administrative Ministry in consultation with Finance Division and the amount of working balance may be maintained in the current or Saving Bank account. Para 3 (b) (c) states that the selection of banks should be transparent and the risk associated with keeping deposits should be diversified. Therefore, in cases where total working balance of an enterprise exceeds Rs 10 million, not more than 50% of such balance shall be kept with one bank. Further, Rule 40 of PPRs 2004 states that there shall be no negotiation with the bidder after opening of bids.

It was observed that approved working balance of NTC was Rs 300 million which could be placed in a bank as per approved policy whereas NTC made an investment of Rs 1,028 million in commercial banks without any legal authority and approval of the Finance Division in violation of the above. It was further observed that NTC management obtained sealed quotations on 28th May, 2018 for investment from the AA rated banks. The quotations were opened by the committee on 14th June, 2018 and M/s Samba Bank Ltd was declared 1st highest with the interest rate of 6.80%. The management again took up the matter with the banks for revision in the interest rates. According to revised rates dated 21st June, 2018 M/s Samba Bank was again declared 1st highest with interest rate of 6.95%. NTC investment committee recommended on 22nd June, 2018 to invest NTC owned funds with Samba Bank @ 6.95 % p.a for six months. The case was placed before the NTC Audit Committee on 26th June, 2018 which recommended to place the funds of Rs 1,028 million @ 6.96 % in Bank of Punjab without keeping in view the recommendation of NTC investment committee and rates received through sealed quotations. The documents further revealed that Bank of Punjab quoted three different rates of interest as 6.40%, 6.90% and 6.96% respectively in one day i.e 21st June, 2018 whereas the bids were opened on 14th June, 2018. This rendered the whole process as biased and resulted in undue favour to the bank of Punjab.

Audit pointed this out to the management and PAO during July-August 2018. It was replied that the funds being invested in short term including working balance of Rs 300 million and other funds committed against ADP & Accrued Liabilities. As per directions of DAC, 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 the instructions issued by Finance Division on 2nd July, 2003 were binding on all the Federal Government entities and may be followed in letter and spirit. As regard to investment in Bank of Punjab (BoP) the recommendations of investment committee were placed before NTC Audit Committee. The NTC Audit Committee was of the view that security of funds was also necessary besides higher rate of return. NTC Audit Committee opined that Samba Bank is smaller bank than The Bank of Punjab in terms of number of branches, net worth and profitability. In view of the above, instructions of NTC Audit Committee, BoP was asked to enhance its offered rates. Accordingly, BoP revised its offered rates as 6.96% p.a. for six months term. Accordingly, the funds were placed on the recommendations of NTC Audit Committee with the approval of MD, NTC. The reply was not acceptable as the instructions of Finance Division were not implemented in letter and spirit regarding investment of working balance. All banks submitted their rates through sealed quotations whereas Bank of Punjab submitted three rates in one day after opening of bids. The bank with 1st highest bid was ignored and NTC management informed the Bank of Punjab about the rates of other banks to submit enhanced rate of one paisa. The unrealistic ADP were prepared each year and then invested in commercial banks instead of its surrender to FCF.

DAC in in its meeting held on 28th November, 2018 directed to conduct detailed Fact Finding Inquiry (FFI) at Ministry level and fix the responsibility for the irregularity.

Audit recommends compliance of the DAC directives.

(DP No.13)

5.4.2 Unjustified expenditure on National Data Center – Rs 356.184 million

According to Rule 4 of Public Procurement Rules 2004, Procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical. Furthermore, according to contract clause 13.2, 45% of the total contract value shall be payable to the contractor upon successful delivery of the equipment at destination

It was observed that a project regarding supply, installation, testing & commissioning of NTC Data Center was approved having sanctioned cost of 399.500 million with certain objectives. After open tender on 11th July, 2015 the contract was awarded to M/s Inbox Business Technologies. Audit observed that payment was made without complete delivery of items as mentioned in the

BOQ of the contract. The contractor was also obliged with running payments whereas there was no provision of running payment in the contract. Following irregularities were also observed during execution and completion of the project:

i. The Provisional Acceptance Certificate (PAC) was issued on 1st November, 2016 whereas there were a number of discrepancies / deficiencies in the project. The record further revealed that the project was shown as completed in August, 2016 whereas PAC was issued in November, 2016.

ii. Final Acceptance Certificate was not issued till date and a Nil Discrepancies Certificate (NDC) was issued on 29th June, 2018 but the evidence of removal of discrepancies was not available on the record. Moreover, the issuance of NDC clearly indicated that the project was not completed but shown as completed just to favour the contractor.

iii. The completion report dated 16th July, 2017 showed completion of project at the total cost of Rs 356.184 million whereas the journal ledger showed incurrence of expenditure against this project during 2017-18. This indicated that actual completion was not made so far but so called completion report was placed in the file just to save the contractor from late payment charges. Date of completion was not mentioned on the completion report.

iv. According to para 5 of PC-I the project was implemented for various services including establishment of Data Centers, backup and disaster recovery solution. NTC management failed to established requisite disaster recovery cell till date.

Audit pointed this out to the management and PAO during July-August 2018. It was replied that Data Center equipment i.e. Racks, Servers, Storage Devices, Rectifiers, UPS etc. were airlifted and delivered, well in time at the site for installation of the same and the payment of the said items was made accordingly. As per contract agreement, PAC may be issued with non-service affecting deficiencies. In this regards, PAT of the Data Center was conducted by nominated committee. The said team highlighted only minor / non-service related discrepancies. The contractor removed / rectified the discrepancies mentioned in PAC, therefore NDC (Nil Discrepancies Certificate) was issued to the contractor upon his request. As far as, Completion Certificate of Data Center was concerned, it was replied that Provisional Completion Report of Data Center was issued on 27th July, 2017 to capitalize the expenditure incurred so that the depreciation of the installed equipment may be initiated as per accounting procedure. The reply was not acceptable as 45% payment was required to be made upon successful delivery of entire equipment, whereas, the contractor failed to deliver the equipment but the payment was made. As per completion report the project was shown completed in August 2016 whereas PAC was issued in November 2016 which proved that project was not completed and there were major discrepancies. The completion report available in the record was not a draft but final completion report duly signed by all representatives.

DAC in in its meeting held on 28th November, 2018 directed NTC management for verification of asset and stock register; inspection reports duly showing the receipt of material, provisional acceptance test reports, provisional acceptance certificate, completion report and documents of removal of discrepancies.

Audit recommends compliance of the DAC directives.

(DP No.15)

5.4.3 **Unauthorized termination of international traffic – Rs 224.387 million**

According to section 41(3) of Pakistan Telecommunication (Re-organization) Act, 1996 and license condition 2.1 (a) & (b), NTC is responsible to establish, operate and maintain Telecommunication Systems and to provide Telecommunication Services of all kinds only to its designated customers. NTC designated customers include Armed Forces, Federal Government, Provincial Government or such other Government Agencies or Government Institutions as the Federal Government may determine throughout the Licensed Territory and to provide national and international telecommunication systems of the Ministry of Foreign affairs, Intelligence Bureaus and Inter-Services Intelligence Directorate of the Government of Pakistan.

NTC management made agreements with various Telcos for international incoming voice business. As a result of these agreements the operators terminated 22.894 million minutes during January 2018 to June 2018 in violation of the above. As a result of unauthorized termination of international traffic, billing for the year 2017-18 amounting to Rs 224,386,801 was issued as detailed below:

S.No	Name of Operator	Billing (Rs)
01	Link International	175,808,413
02	Telebiz Malaysia	350,781
03	Real Telekom UK	28,138,624
04	Geo Tel Lanka	13,096,762
05	Dawan Global Ser	6,558,312
06	Fisk Telecom	433,909
	Total	**224,386,801**

Audit pointed this out to the management and PAO during July-August 2018. It was replied that with reference to Section 41 (3) of Pakistan Telecommunication (Re-Organization) Act, Integrated License issued by PTA and Telecom Policy 2015 after exclusivity period of the Company specified in Section 39, the NTC may sell its capacity on the Telecommunication System to any person. Further, the term “Designated Customer” as defined in NTC’s license was relative for services within Pakistan whereas it was not applicable for international traffic brought into Pakistan since; international traffic was obtained through foreign carriers. That’s why NTC had been provisioned by Federal Government as mentioned above to bring traffic in mix mode by mixing calls destined to its designated as well as non-designated customers. From commercial point of view, it was not possible for NTC being a Public Sector Organization to only obtain international calls destined to NTC numbers from foreign carriers. The reply was not acceptable as PTA vide its letter dated 13th June, 2014 accorded fresh approval to NTC to establish its own international gateway and to provide telecommunication service in accordance with license issued to NTC. The issue was further highlighted by PTA to NTC vide letter dated 10th March, 2017. Therefore, provision of services beyond its scope and termination of international traffic for other customers without approval of the Federal Government and PTA was violations of the license conditions.

DAC in in its meeting held on 28th November, 2018 directed NTC management to reconcile the documents with Audit to proceed further.

Audit recommends that matter should be taken up with PTA to resolve the issue through amendment in the license conditions and to avoid imposition of any fine by the Regulator.

(DP No.22)

5.4.4 **Unauthorized financial concurrence – Rs 61.586 million**

According to Rule 2.18 of NTC service regulations, the charge of the vacant post may be given temporarily in addition to the duties of his own post to the senior most officer in the cadre present at the place if he is fit and qualified to hold that post. Para 5 of schedule VI of NTC service regulations further states that appointment to the post of Member (Finance), Director (Finance) or the Chief Finance Officer (CFO) in any autonomous body irrespective of the designation, shall be made with the approval of the Prime Minister in case the post is in BS-20, equivalent or above.

Scrutiny of personal file, paid vouchers and other relevant record revealed that Director (Finance & Budget) NTC was granted current charge of the post of General Manager (Finance) w.e.f 4th January, 2018 for three months. Upon expiry of current charge the officer was allowed to look after the post of GM (Finance). Audit has the following observations:

(i) The current charge was granted to a junior officer in the presence of senior officers in violation of NTCs own service rules. Hence, the current charge appointment, payment of current charge pay of Rs 24,000 and decisions taken by the officer as General Manager (Finance) stands irregular.

(ii) The record further revealed that the officer also held the post of Director General (Finance) from January 2018 without any legal authority. The officer had given financial concurrence of heavy amounts as Director General (Finance) which was not covered under the rules, hence, stood irregular. As a test check Audit pointed out some cases involving an amount of Rs 61,586,324 against which the financial concurrence as DG (Finance) was given by the officer without any legal authority.

(iii) It was further observed that NTC investment committee comprises Director (Finance & Budget), Director (Admn) and Director General (Finance). The officer signed the recommendations / decisions of heavy investment as Member of investment committee being Director (F&B). The officer further countersigned the recommendations / decisions as head / Chairman of investment committee for investment of NTC Trust and own funds holding the post of DG (Finance). Audit contends that it was serious violation of rules and conflict of interest.

Audit pointed this out to the management and PAO during July-August 2018. It was replied that as per Service Regulation, Mr. Nauman Khalid Qureshi, Director (F&B) was assigned current charge of the post of GM (Finance) being senior most Director (of Finance Cadre) at the station (i.e. NTC HQs). Hence, grant of current charge to the officer was as per provision of NTC Service Regulations. As regard grant of approvals as DG (Finance) was concerned, presently no DG (Finance) was posted in the Corporation. To run the affairs of the Corporation, the officer was allowed current charge of the post of GM Finance and also assigned look after job of GM (Finance) / DG (Finance). NTC Investment Committee was the preliminary committee which only opened the sealed quotations, prepare comparative statements and recommended to the Audit Committee. The Audit Committee was authorized to recommend the case for approval of NTC Management Board. The reply was misleading therefore not acceptable. The officer was granted current charge by ignoring the senior most officer at Islamabad station. The officer had no legal authority to work as DG (Finance) but financial concurrence was given by the officer without any legal authority. The recommendation of the investment committee was presented before the Audit Committee for approval. Therefore, the recommendation of Investment Committee had a weightage as whole process was scrutinized by the Investment Committee.

DAC in in its meeting held on 28th November, 2018 directed to conduct detailed Fact Finding Inquiry (FFI) and to fix the responsibility for the irregularity. DAC further directed to get the current charge arrangement regularized from the Board of Directors.

Audit recommends compliance of the DAC directive.

(DP No.09)

5.4.5 Irregular payment of bonus to officers - Rs 10.715 million

NTC Service Regulation 3.7 states that NTC employees fall in the definition of workers and shall be allowed bonus subject to earning of profit with the approval of NTC Management Board. The bonus for officers of NTC shall be paid with the concurrence of Finance Division.

It was observed that NTC management paid an amount of Rs 10,715,399 on account of bonus to officers without approval of the Finance Division in violation of above during 2017-18. Detail is as under:

Sl. No	Para No.	Description	Amount (Rs)
1.	04-19	NTC Headquarter	3,795,140
2.	201-19	Director NTC, Rawalpindi	682,005
3.	209-19	Director NTC, Lahore	4,370,589
4.	218-19	Director Development NTC, Lahore	215,825
5.	253-19	Director NTC, Karachi	1,651,840
		Total	**10,715,399**

Audit pointed this out to the management and PAO during July-August 2018. It was replied that the bonus was duly approved by the NTC Management Board and paid in two parts, i.e. to staff in December, 2017 and to its officers during May-June, 2018. The payment was made owing to huge demand and pressure of the employees on the occasion of Eid-ul-Fitr and on the plea that the Management Board had already approved and the same will be subsequently approved by the Finance Division. The approval from Finance Division was in process / at final stage as the annual audited accounts for the F.Y 2016-17 had already been submitted to MoF through MoIT. The reply was not tenable as the demands and pressure of the employees does not mean that payment may be made in violation of the Rules. Further, the pressure was from employee's side for which the competent authority was the Management Board. Audit pointed out the payment of bonus to officers which was paid without concurrence of the Finance Division.

DAC in in its meeting held on 28th November, 2018 directed NTC management to provide the approval of the Finance Division to Audit to proceed further.

Audit recommends that responsibility for payment in violation of the Rules may be fixed and inquiry be conducted as to how bonus was paid without approval of Finance Division.

(DP Nos.4,201,209,218 & 253)

5.4.6 Non-deduction of sales tax on services - Rs 4.107 million

According to Sr. No 26, Schedule II of KPK Finance Act 2013, tax @ 15% will be levied on services provided by persons engaged in contractual execution of work or furnishing supplies. Moreover, Sr. No 16, Second Schedule (Taxable Supplies) of Punjab Finance Act 2015, tax @ 16% will be levied on services provided by persons engaged in contractual execution of work or furnishing supplies.

Contrary to the above, Director Development (North) awarded pre-deposit works of PAF base Peshawar, Mianwali & Noor khan to different contractors. An amount of Rs 26,517,478 was paid to the contractors on account of services acquired during financial year 2017-18 but sales tax on services @ 15% & 16% amounting to Rs 4,106,901, respectively, was not deducted.

Audit pointed this out to the head of the formation / management during August / September 2018. It was replied that in the tenders, it was mentioned that the prospective bidders must quote their rates inclusive of all applicable taxes. In the bidding process, the contractors did not quote services tax and accordingly the same were not made part of evaluation. The works / project was executed in cantonment area which falls outside the provincial revenue department on which PST was not applicable. The reply was not acceptable as the sales tax on services was equally applicable on the services acquired as per KPK Finance Act 2013 and Punjab Finance Act 2015 and NTC was required to include the amount of Services Tax in the bills submitted to PAF. The department's non-observance of rules deprived the government of its tax revenue.

DAC in in its meeting held on 28th November, 2018 directed NTC management to obtain the clarification from Ministry of Law Justice and Parliamentary Affairs through MoIT and get it verified from Audit.

Audit recommends compliance of the DAC directives.

(DP No.147)

5.4.7 Irregular expenditure on repair and maintenance of AC units - Rs 2.128 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.

It was observed that in two regions of NTC, the management entered into contracts agreement for repair and maintenance of air conditioning units for the period upto 30.06.2016. The contracts were extended from 01.07.2016 to 30.06.2018 without having a clause of extension of contract in the agreement. An expenditure of Rs 2,128,265 on this account was incurred during the year 20017-18 which was held irregular being in violation of the PPRs.

Audit pointed this out to the management and PAO during October, 2018. It was replied that two time extensions were made with the approval of competent authority. The tender was floated on March 3, 2015 for periodic and corrective maintenance of AC units throughout Islamabad and Rawalpindi as and when required basis, duly approved by the Chairman. After expiry of contract agreement on 30th June, 2016, the case was put for decision on the basis of operational urgency and performance of the contractor. The case was pleaded on the clause-8 of the contract, which narrated repeat order on same rates. The case was ultimately approved by NTC HQs. Further, Rule-42 of the PPRA rules also supported the extension which provides that the contractor do not exceed three years in duration. MD approved the extension till 30th June, 2018. The reply was not acceptable as this was not the case of repeat-order basis. Further, Rule-42 of the PPRA Rules was related to those cases where the clause of extension in contracts was already given in the contracts as a result of tender proceedings but in the instant case, there was no clause of extension of contract in the agreement.

DAC in its meeting held on 28th November, 2018 directed NTC management to get the expenditure regularized from the Board of Directors within two months.

Audit recommends compliance of the DAC directives.

(DP No.42 & 200)

5.4.8 **Irregular procurement of laptops – Rs 811,300**

According to Rule 8 of Public Procurement Rules 2004, within one year of commencement of these rules, all procuring agencies shall devise a mechanism for planning in detail for all proposed procurements with the object of realistically determining the requirements of the procuring agency, within its available resources, delivery time or completion date and benefits that are likely to accrue to the procuring agency in future. Rule 21 *ibid* states that the procuring agencies shall engage in open competitive bidding if the cost of the object to be procured is more than one hundred thousand rupees. Rule 10 *ibid*, further stipulates that Specifications shall allow the widest possible competition and shall not favour any single contractor or supplier nor put others at a disadvantage. Specifications shall be generic and shall not include references to brand names, model numbers, catalogue numbers or similar classifications.

It was observed that NTC management incurred an expenditure of Rs 811,300 on procurement of laptops during 2017-18. The expenditure was incurred on quotation basis in splitting manner instead of calling open tenders. Following irregularities were also observed:

(a) A case for procurement of two laptops was moved on 22.03.2017 and tender was floated on 8.6.2017 but no bidder participated. The committee recommended to procure the laptops through purchase committee and the MD approved the recommendation of the purchase committee on 20.06.2017. However, the procurement was made on 05.10.2017 with a delay of seven months from the date of initiating the case. This abnormal delay showed that there was no urgency for procurement of laptops mentioned in the proposal, hence, should be retendered. Moreover, two laptops were purchased @ Rs 97,500 each whereas in other cases the procurement was made @ Rs 78,650 of same and higher specification.

(b) Clause 8 of the purchase order requires submitting bank guarantee / performance security after issuance of letter of intent (LOI) but the same was not furnished by the contractor.

(c) It was further observed that NTC management made procurement of 10 laptops during 2017-18 which was a considerable quantity. The procurement on quotation basis indicated that NTC management did not adhere to Rule 8 of PPRs 2004 and have ineffective planning which resulted the procurement of laptops in splitted manner and at higher rates.

(d) The quotations were called duly mentioning the brand names, model numbers, and catalogue numbers in violation of Rule 10 of PPRs 2004 which indicated a favourtisim.

Audit pointed this out to the management and PAO during July-August 2018. It was replied that Procurement of 02 x Laptops was made as per Rules and purchase policy. The case was put to open tenders two times, however, due to the meager quantity no one participated in the tenders. The procurement of the same was obliged through purchase committee in accordance with the policy. The committee accordingly collected quotations through open market and no irregularity was found. Moreover, the laptops / computer were frequently required due to faults that could not be predicted in advance. Therefore, the purchase of such items was made on as and when required basis for smooth functioning of office routine. The reply was not acceptable as the NTC management made procurement of 10 laptops during 2017-18 which was not a meager quantity. The laptops were purchased every month which should be planned for a financial year as per

PPRs. The procurement was made without inviting open tenders, therefore, considered as irregular.

DAC directed NTC management to stop such practice for future and get the expenditure regularized from its Board of Directors.

Audit recommends compliance of the DAC directives.

(DP No.01)

5.5 Internal Control Weaknesses

5.5.1 Non-clearance of liabilities on account of settlement payment – Rs 509.838 million

According to Rule 43 of Public Procurement Rules, 2004 **a**ll 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.

The Receivables and Payables of PTCL & mobile operators showed that NTC management did not make payment of Rs 509,838,224 to PTCL and mobile operators on account of NTC settlement payments against their invoices in violation of the above. Detail is as under:

S.No	Description	Amount (Rs)
01	PTCL	317,336,797
02	Mobile Operators	192,501,427
	Total	**509,838,224**

It was further observed that PTCL management took up the matter with NTC authorities that PTCL was issuing monthly invoices along with due dates of payment which had never been disputed by NTC within stipulated time.

Audit pointed this out to the management and PAO during July-August 2018. It was replied that reconciliation with PTCL has been made up to December 2015. The amount of Rs 317,336,797 observed by audit relates to FY 2017-18 which would be paid to PTCL after reconciliation and adjustment of NTC claim for the same period. The payable to mobile operators was Rs 129,000,386 instead as pointed out by Audit. An amount of Rs 70,141,891 had been paid to mobile operators against the observed amount of Rs 129,000,386. The reply was not acceptable as PTCL authorities approached NTC time and again for the payment. As regards to payment of mobile operators the figures were pointed out from the receivable sheet as provided during Audit. However, record regarding reconciliation, if any, may be provided for verification.

DAC in its meeting held on 28th November, 2018 directed NTC management to finalize the reconciliation with the operators within
2 months.

Audit recommends that matter regarding payment / settlement / reconciliation should be resolved at the earliest to avoid any complications.

(DP No.20)

5.5.2 **Release of retention money to black-listed contractor – Rs 0.950 million**

According to Rule 19 of PPR, the procuring agencies shall specify a mechanism and manner to permanently or temporarily bar, from participating in their respective procurement proceedings, suppliers and contractors who either consistently fail to provide satisfactory performances or are found to be indulging in corrupt or fraudulent practices. Such baring action shall be duly publicized and communicated to the Authority.

It was observed that M/s S.S Traders, the contractor was blacklisted by the NTC management in the year 2014 for non-fulfilling contractual obligations but released the retention money of Rs 949,500 to a blacklisted contractor. DAC while discussing the para during its meeting held on 27th December, 2016 directed for detailed verification of record but compliance was not made.

It was replied by NTC management during DAC that all record was readily available for verification. DAC took serious notice for non-compliance of previous DAC directives and directed for verification of record within 15 days.

No record for verification was provided till finalization of this report. Therefore, Audit recommends that matter should be investigated, responsibility may be fixed for non-compliance of DAC directives and release of retention money besides recovery of the amount.

(DP No.04-17)

5.5.3 Non-recovery of receivables on account of pre-deposit works – Rs 13.379 million

According to para 10 of pre-deposit policy, upon completion of the work, the concerned Director shall prepare and issue the final capital bill. The client will be required to deposit / settle the bill within two months of the receipt of the Final Capital Cost Bill. Pre-deposit work policy further stipulates that the client will be required to deposit / settle the bill within two months of the receipt of the bill, after which no excess shall be refunded to the client and treated as NTC's other income.

It was observed that NTC external auditors M/s Grant Thornton Anjum Rehman, Chartered Accountants raised objection on receivables / payables on account of pre-deposit works amounting to Rs 13.379 million. The observations were communicated to GM Central Lahore by NTC Headquarter vide letter dated 9th January, 2017 with the direction of recovery by 16th February, 2017. The NTC Lahore region passed a journal voucher No.29 & 30 dated 31.05.2017 and booked the amount as other income under head damage charges instead of recovery of the amount involved in violation of the pre-deposit policy.

Audit pointed this out to the management and PAO in October 2017 and it was replied that case was under consideration with NTC HQ and final outcome would be informed shortly. While discussing the para during DAC meeting held on 22nd January, 2018 it was directed that matter may be investigated at Headquarter level within 15 days under intimation to Audit but compliance of the DAC directives was not made. The matter was again informed to the management during October 2018 and it was replied that inquiry committee has been constituted vide letter dated 10th October, 2018 and Facts Finding Proceeding was in process. The reply was not tenable as the inquiry committee was constituted after 10 months of the DAC directives and still no proceeding was started. This showed ineffective internal controls of the management despite issuance of DAC directives.

DAC in its meeting held on 28th November, 2018 again directed NTC management to conduct Fact Finding Inquiry (FFI) within 30 days and get it verified from Audit.

Audit recommends compliance of the DAC directives.

(DP No.256-18)

5.6 Receivables

5.6.1 Non-recovery of outstanding dues from PTCL – Rs 129.235 million

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

It was observed that an amount of Rs 129,234,840 was billed to PTCL on account of various services during 2017-18 but NTC management failed to recover the requisite amount according to the due dates given in the invoices and up till now. Detail of recoverable dues is as under:

Sl. No	Name of Company	Period		GST	Total (Rs)
		July – Dec	Jan - June		
01	Interconnect Revenue	19,356,093	19,338,177	6,583,577	45,277,846
02	Mobile Incoming through PTCL	50,997	32,097	-	83,904
03	International Incoming through PTCL	412,502	366,053	-	778,555
04	Local Areas Connectivity Charges (LACC)	1,476,000	1,454,850	542,207	3,473,057
05	Co-Location Charges	37,914,989	41,706,488	-	79,621,477
	TOTAL	**59,210,581**	**62,897,665**	**7,125,784**	**129,234,839**

Audit pointed this out to the management and PAO during July-August 2018. It was replied that reconciliation with PTCL has been made up to December 2015. The amount observed by audit relates to FY 2017-18 and reconciliation / adjustment would be made against payable to PTCL for the same period. The reply was not tenable as the invoices were issued to PTCL with due dates but the recovery was not effected. Further, despite lapse of 3 years, reconciliation was not carried out which indicated weak receivable management.

DAC in its meeting held on 28th November, 2018 directed NTC management to recover the amount from PTCL within 2 months.

Audit recommends that amount may be recovered along with late payment charges and got verified from Audit.

(DP No.27)

5.6.2 Non-recovery of Data Centre revenue – Rs 82.182 million

According to para 11, Annex-D of approved PC-I of project titled "NTC Data Centre with Cloud Services" the estimated revenue earning for the 2nd year were Rs 190.680 million. Rule 26 to 28 of GFR Vol-I further 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.

It was observed that NTC management failed to achieve the requisite objectives of earning of revenue as forecasted in the PC-I for the 2nd year of the project. NTC management issued invoices of Rs 145.997 million and only an amount of Rs 63.815 million could be recovered leaving a balance of Rs 82.182 million.

Audit pointed this out to the management and PAO during July-August 2018. It was replied that out of Rs 82.182 million an amount of Rs 3.85 million had been recovered. The reply was not tenable as no documentary evidence of recovered amount was provided. Furthermore, record did not show imposition of any penalty on delayed receipt of revenue. This showed ineffective internal controls and weak receivable management.

DAC in its meeting held on 28th November, 2018 directed NTC management to get the recovered amount verified and recover the balance amount at the earliest.

Audit recommends compliance of the DAC directives.

(DP No.26)

5.6.3 Non-recovery of outstanding dues - Rs 42.886 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 5,901,724 on account of DSL, Closed, PRI and Working Connections from different departments / subscribers during FY 2017-18. Detail is as under:

Sl. No.	PDP No.	Name of Service	Amount (Rs in million)
1.	38-19	Director NTC Peshawar	1.218
2.	39-19	Director NTC Multan	4.267
3.	50-19	Director Development NTC IBA	7.990
4.	149-19	Director NTC Quetta	4.205
5.	208-19	Director NTC Rawalpindi	3.154
6.	216-19	Director NTC Lahore	11.134
7.	254-19	Director NTC Karachi	10.918
Total			**42.886**

Audit pointed this out to the head of the formation / management during July to October, 2018. It was replied that due to hectic efforts of Revenue Section of Rawalpindi Directorate, 70% of dues had been collected & rest of the amount would also be recovered in near future. The reply was not acceptable as the pace of recovery was very slow and NTC did not implement its own criterion of recovery.

DAC in its meeting held on 28th November, 2018 directed NTC management to recover the amounts and get it verified from Audit.

Audit recommends compliance of the DAC directives.

(DP Nos.38,39,50,149,208,216,254)

5.6.4 **Non-recovery of rent and electricity charges from Multinet – Rs 36.426 million**

According to Rule-8 of GFR Vol-I, it is the duty of the Revenue Department concerned to see that the dues of Government are correctly and promptly assessed, collected and paid into the Government treasury. Rule-26 of GFR Vol-I further stipulates that it is the duty of the departmental controlling officers to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the Public Account.

Director NTC Lahore failed to recover an amount of Rs 36,425,976 on account of rent of 1st & 2nd floor of NTC Lahore building and electricity charges from M/s Multinet during 2017-18. Detail is asunder:

Sl. No.	Floor	space given for rent	Rate per Sqft	Period	Amount (Rs)
1	1stFloor	9600 sqft	195	01.07.17 to 30.06.18	22,464,000
2	2nd floor	3555 sq. ft	195	-do-	8,318,700
3	Electricity Charges			01.01.18 to 31.07.18	5,643,276
				Total	**36,425,976**

Audit pointed this out to the management and PAO in October 2018. It was replied that matter was taken with Multinet and a reconciliation meeting, was also held. After meeting upon request of Multinet, the tenant was allowed to clear all outstanding due by September 2018. The proceeding of recovery was in process. The reply was not acceptable as non-recovery of rent and other facilities indicated an undue favour which require investigation.

DAC in its meeting held on 28th November, 2018 directed NTC management for Fact Finding Inquiry (FFI) at Ministry level within one month.

Audit recommends compliance of the DAC directives.

(DP No.213 & 215)

5.6.5 Non-recovery of damage charges - Rs 23.056 million

According to Rule-8 of GFR Vol-I, it is the duty of the Revenue Department concerned to see that the dues of Government are correctly and promptly assessed, collected and paid into the Government treasury. Rule-26 of GFR Vol-I further stipulates that it is the duty of the departmental controlling officers to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the Public Account.

It was observed that in three Directorates of NTC the management failed to recover the damages claim of Rs 23,056,379 from various agencies due to damage of NTC network during development projects. Detail is as under:

Sl. No.	PDP No.	Description	Formation	Amount (Rs)
01	37-19	Damages charges recoverable from Bus Rapid Transit (BRT) Project	Director NTC Peshawar	16,028,771
02	56-19	Damages charges recoverable from NHA Quetta	Director NTC Quetta	3,534,910
03	157-17	Damages charges recoverable from RDA Rawalpindi	Director NTC Rawalpindi	3,492,698
			Total	**23,056,379**

Audit pointed this out to the management and PAO during September to October 2018. It was replied that the case had already been taken up with Peshawar Development Authority and NHA and coordination in this regard was also underway. As regard to RDA Rawalpindi, the PCC bills were forwarded to RDA against damage claim for miscellaneous works of Metro bus project from sadar to Faizabad Rawalpindi. In this context several meeting and telephonic conversion were held between NTC and RDA on a regular interval basis. The RDA responded that Rs 198 million were allocated to NTC and in case of excess, authority would process the claim accordingly. The reply was not acceptable as the damages charges were not recovered despite lapse of considerable time which indicated that no serious efforts were made to recover the NTC dues.

DAC in its meeting held on 28th November, 2018 directed NTC management to expedite the process of recovery, recover the amount and get it verified from Audit.

Audit recommends compliance of the DAC directives.

(DP Nos.37, 56 & 157-17)

5.6.6 **Non-recovery of revenue receipts and interconnect charges – Rs 21.563 million**

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

In violation of the above, NTC management failed to recover an amount of Rs 21,562,840 on account of co-location charges, web hosting and Multi Services Data Network (MSDN) Intranet and Interconnect charges from different telecom companies and mobile operators during FY 2017-18. Detail is as under:

S.No.	Name of Service	Amount (Rs)
01	Co-Location	9,901,734
02	MSDN Intranet	6,425,317
03	Webhosting	1,499,714
08	Interconnect charges (M/s Ufone)	3,736,075
Total		**21,562,840**

Audit pointed this out to the management and PAO during July-August 2018. It was replied that efforts were underway to recover the amount. The reply was not acceptable as pace of recovery was very slow and management failed to recover the dues during 2017-18.

DAC in its meeting held on 28th November, 2018 directed NTC management to recover the amount and get it verified from Audit.

Audit recommends compliance of the DAC directives.

(DP No.25)

5.6.7 Non-recovery of long outstanding receivables on account of interest on investment – Rs 17.355 million

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

It was observed that an amount of Rs 17,355,341 was recoverable from M/s Crescent Standard Bank on account of interest against investment since 2005-06. The record did not show any concrete efforts for recovery of the long outstanding interest receivables. Non-recovery of interest indicated ineffective internal controls and weak receivable management in the organization.

Audit pointed this out to the management and PAO during July-August 2018. It was replied that NTC had deposited Rs 374.720 million with CSIBL during 2004-06 with the understanding that the Bank affairs were running professionally under the control of SECP. However, the bank defaulted in 2006 and the funds got stuck-up since then. NTC tried its best to recover the funds but could not succeed till date. An amount of Rs 17.35 million was accrued interest on these funds. During the liquidation process NTC had also filed a petition for recovery of funds. The application of NTC had been accepted by the Honorable Court. At present, the Court had directed the liquidator to pay an installment of Rs 10,000,000 to corporate customers. The documentation of the same was in process and NTC would be paid this installment once the documentation was complete. The reply was not tenable as the amount received did not indicate the break-up of actual or interest, hence, could not be verified.

DAC in its meeting held on 28th November, 2018 pended the para till the final status of the liquidation process and recovery.

Audit recommends that the matter may be pursued and final outcome of the completion of documentation and payment of installment may be provided to Audit for verification.

(DP No.24)

5.6.8 Non-recovery of rent from PTCL - Rs 7.282 million

The rental rates, prescribed by the Ministry of Housing and Works vide office memorandum No. F.12(65)2011- policy dated 27.03.2017, for hiring office accommodation, as revised from time to time, will be charged. Further, Rule 26 & 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.

Contrary to the above, it was observed that PTCL authorities did not hand over vested properties of NTC despite the lapse of a period of almost 20 years after re-organization of telecommunication system in 1996. Neither strenuous efforts were made to get vacated such valuable properties nor were any claims for rent raised by the NTC management. Resultantly, an amount of

Rs 7,282,170 on account of rent for the year 2017-18 was not recovered. Detail is as under:

Sl. No.	Name of Station-NTC's Vested Property	Covered Area Sq.Ft	Rate Per Sq. Ft	Period	Total Rent Rs
1	CTO building Multan	5,485	35	01.07.17 to 30.06.18	2,303,700
2	Carrier Hall Model Town Bahawalpur	766	35	-do-	321,720
3	Carrier Hall Rahim Yar Khan	1,336	35	-do-	477,120
4	Carrier Hall Bahawalnagar	1,158.5	35	-do-	486,570
5	PTCL Rest House Fort Manro	3,375	35	-do-	1,417,500
6	PTCL Exchange Fort Manro	1,282	35	-do-	538,440
7	Quarters rent of T&T M/W Colonies, Khuzdar, Mughalpura, Uthal and Gizri				1,737,120
				Total	**7,282,170**

Audit pointed this out to the management and PAO in July 2018. It was replied that inter-company claims between NTC and PTCL were settled on yearly basis at NTC Headquarter. NTC claims upto December 2016 had been settled and the remaining were under process. The reply was not acceptable as definite period both for vacation of vested assets and settlement of outstanding rent had not been confirmed.

DAC in its meeting held on 28th November, 2018 directed NTC management to recover the co-location revenue and quarters rent from PTCL within 2 months.

Audit recommends compliance of the DAC directives.

(DP No.29, 41 & 58)

5.6.9 Non-realization / recovery of outstanding dues on account of Pre-Deposit Works - Rs 1.939 million

Rule 26 and 28 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.

It was observed that Director NTC (Dev), Lahore carried out pre-deposit works for PAF for laying of UG cable OSP network at PAF Base, Rajanpur. The works were completed and NTC issued Provisional Acceptance Certificate (PAC) on 22-05-2018. The FCC bill was required to be issued just after issuance of PAC but the FCC was issued on 07-09-2018 after three months of the completion of project. Resultantly, NTC failed to recover an amount of Rs 1,939,145.

Audit pointed out this to the management in October, 2018. It was replied that Final Capital Cost (FCC) bill had been issued to PAF after fulfilment of all codal formalities by NTC Headquarter and contractor. All possible efforts were being made for an early payment of FCC bill.

The reply was not acceptable as copies of final bill issued were not provided for verification. The amount had not been recovered so far despite completion of the work.

DAC in its meeting held on 28th November, 2018 directed NTC management to expedite the efforts, recover the amount and get it verified from Audit.

Audit recommends compliance of the DAC directives.

(DP No.219)

CHAPTER-6

SPECIAL COMMUNICATIONS ORGANIZATION

6. SPECIAL COMMUNICATIONS ORGANIZATION

6.1 Introduction

Special Communications Organization (SCO) 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 Auditing (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 the finalization of the Audit Report despite continuous pursuance by the Audit. Hence, no comments on the accounts could be made.

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	100
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 Irregular payment against imported goods – Rs 173.200 million

According to para 148 of GFR Vol-I all materials received should be examined, counted, measured or weighed as the case may be, when delivery is taken, and they should be taken in charge by a responsible Government officer who should see that the quantities are correct and their quality is good, and record a certificate to that effect. The officer receiving the stores should also be required to give a certificate that he has actually received the materials and recorded them in the appropriate stock register.

SCO management made an agreement with M/s ZTE on 16th June, 2016 against the project titled "Replacement of GSM Network in AJ&K" amounting to Rs 1,621 million. An amount of Rs 173.200 million was released during 2017-18 for the project. The entire amount was paid to M/s ZTE by the SCO management against two invoices. The bill of ladings against imported goods did not match with the actual receipt of goods and in some cases the entries were erased with black ink.

The matter was reported to PAO and management during October 2018. It was replied that in all bill-of-ladings M/s ZTE Corporation was exporter and M/s ZTE Pakistan (Pvt) Ltd was importer of goods. Moreover, all relevant bills had been received from the consignee. The reply was not acceptable as the bill-of- ladings provided to audit were not relevant / legible. Further, the goods as claimed in invoice, were not matched with the receipt summary.

DAC in its meeting held on 29th November, 2018 directed the management to provide the bill-of-ladings and other relevant record for verification within one month.

Audit recommends that matter should be investigated for making payment without proper reconciliation of receipt of store besides implementation of DAC directives.

(DP No. 168)

6.4.2 Unauthorized procurement of generators – Rs 68.923 million

According to para 7C of PC-1 titled "Expansion and up-gradation of NGMS (3G/4G) services and seamless coverage along KKH (in support of CPEC) in Gilgit Baltistan (Project No. II/2015-2016)", the provision for procurement of 62 generators (15 KVA) valuing Rs 62 million was required to be made.

Contrary to the above, SCO management signed a contract with M/s Imperial Electric Company Private Ltd in June 2018 for supply of 147 generators (145 of 20KVA and 02 of 600 KVA) having value of Rs 344,614,340. The contract was made in excess of the provisions of PC-I. An amount of Rs 68,922,868 was paid to the contractor as 20% mobilization advance for the said procurement during 2017-18.

The matter was reported to PAO and management during October 2018. It was replied that initially 100 cellular sites were planned but as per engineering survey, 45 additional green field cellular sites were required to be installed for expansion in remote locations of Gilgit Baltistan due to which excessive generators were purchased. The reply was not acceptable as the specifications and quantity of generators, to be procured, was in excess of the provisions in the PC-I.

DAC in its meeting held on 29th November, 2018 directed the management to provide the revised PC-I for verification within one month.

Audit recommends compliance of the DAC directives.

(DP No. 163)

6.4.3 Unjustified appointment of contract employees – Rs 40.408 million

According to para 1 of employment contract agreements the employment of each individual is for the specific project. Further, the employment contract circulated by SCO Headquarter to its battalions vide letter No.1802/5/SCO/HR dated 1st July, 2017 states that DG SCO approved the appointments against specific projects.

SCO management recruited 72 employees against different projects but these employees were not working against these projects to whom they were recruited. Therefore, payment of Rs 40,408,356 to the employees on account of pay and allowances during 2017-18 was considered as unjustified. Detail is as under :

Sl. No.	PDP No.	Name of Formation	No. of employees	Amount (Rs)
1	158-19	DG SCO RWP	58	35,155,248
2	193-19	65-CSB Skardu	04	1,756,668
3	220-19	62 CSB RWP	08	2,520,888
4	225-19	AOTR Gilgit	02	975,552
Total				**40,408,356**

The matter was reported to PAO and management during October to November, 2018. The management replied that as all projects were controlled by SCO HQ, therefore some of the employees were transferred by the SCO HQ for some assignments. The reply was not acceptable as the employees recruited were not working against the specified projects / locations against whom they were recruited which clearly showed that unnecessary recruitments were made.

DAC in its meeting held on 29th November, 2018 constituted a Facts Finding Committee comprising of Member (Telecom) MoIT and Director Audit (SCO) with the direction to come up with a comprehensive report.

Audit recommends compliance of the DAC directives.

(DP No. 158,193,220 & 225)

6.4.4 Irregular expenditure on building works – Rs 9.194 million

According to PAC directives circulated vide letter No.F.10(1)/2016-17/2017-PAC dated 8th November, 2017, the tender documents should not be issued to any participating firm / JV unless it has a valid registration with the Pakistan Engineering Council.

Contrary to the above, SCO management incurred an expenditure of Rs 9,194,300 on account of different repair and maintenance / construction works of buildings through M/s. AM Enterprises and A-Tech Enterprises Rawalpindi. The tender documents were issued and works were executed through General Order Suppliers instead of contractors registered with Pakistan Engineering Council (PEC). Audit further observed that neither any estimate nor BOQs was prepared according to MES schedule rates. Hence, expenditure stands irregular. Detail is as under:

Sl. No	Item No.	Description	Amount (Rs)
1	08	Repair and maintenance of 04 buildings	4,194,300
2	09	Construction and installation of filtration plant	800,000
3	10	Repair/ maintenance and painting/ distempering work of SM Barrack and Micro Wave Dets	4,200,000
		TOTAL	**9,194,300**

Audit is of the view that the payments were made without observing codal formalities which indicated weak contract management.

The matter was reported to PAO and management during November 2018. It was replied that the expenditure was incurred in the light of Rule 3 (a&b) of Annexure-B to FBA&A Procedures. Both contractors were also registered with PEC. The reply was not acceptable as expenditure was incurred without preparing estimates / BOQs according to MES schedule rates and the registration of both contractors was also not renewed after 2011-12.

DAC in its meeting held on 29th November, 2018 directed the management for verification of BOQs and PEC registration of the contractors.

Audit recommends that responsibility for violation of rules may be fixed besides regularization of expenditure from competent forum.

(DP No. 223)

6.4.5 Irregular payment from revenue/foreign currency account – Rs 8.123 million (US$ 75,023.98)

According to SBP letter No. 3474/EPP-16(326) G-2005 dated: 16.05.2005 regarding opening of foreign currency account, payments out of this account can only be made against bandwidth charges on quarterly / half yearly basis.

SCO management paid an amount of Rs 8,123,251 (US$ 75,023.98) to M/s BT and M/s SAP against voice calls and SMS services, respectively out of foreign currency account during 2017-18. The payment was held unauthorized being against the above said provisions and without prior foreign currency budgetary cover of Finance Division.

The matter was reported to PAO and management during October 2018. It was replied that the letter of SBP regarding opening of foreign currency account for International Gateway Exchange and Earth Station transpired that the account would be fed from payments abroad and payments would also be made on account of bandwidth charges on quarterly / half yearly basis. The reply was not acceptable as the payments in US$ were made by the management to the international telecom operators regularly for voice calls and SMS services rather than bandwidth charges against the spirit of SBP / Finance Division instructions.

DAC in its meeting held on 29th November, 2018 directed the management to obtain clarification from Finance Division and State Bank of Pakistan.

Audit recommends compliance of DAC directives.

(DP No. 178)

6.4.6 Unauthorized expenditure on building works – Rs 5.600 million

According to Rule 12 (2) of PPRs 2004, all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu. Further, rule 10 (i) of GFR Vol-I states that every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

SCO management made a contract for construction of cook house and recreation room for Rs 5,600,000 at Gamba, Skardu on 26.10.2017. The expenditure was held unauthorized being double charged against the same work which had already been executed and completed vide SCO HQ sanction No. 1582/DG Sanction/ SCO/E dated: 29.08.2017. Further, the execution of work was carried out without open tender.

The matter was reported to PAO and management during October, 2018. The management replied that Rs 5.6 million was part of already allocated amount of Rs 14.696 million which was sanctioned by SCO HQ for the construction of 64-SM barracks and cook house at Gamba. The reply was not acceptable as the expenditure was double charged against one work which required proper investigation. Further, the expenditure was incurred without calling open tenders.

DAC in its meeting held on 29th November, 2018 directed the management for verification of all relevant record within one month.

Audit recommends that Fact Finding Inquiry (FFI) may be carried out in the instant case.

(DP No. 198)

6.4.7 Irregular expenditure on account of repair & maintenance works – Rs 4.780 million

According to Rule 12 (2) of PPRs 2004, all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu. Further, Rule-8 of PPRs stipulates that all procuring agencies shall devise a mechanism, for planning in detail for all proposed procurements with the object of realistically determining the requirements of the procuring agency, within its available resources, delivery time or completion date and benefits that are likely to accrue to the procuring agency in future.

SCO management incurred an expenditure of Rs 4,780,432 on account of repair and maintenance of vehicles, AC units and machinery & equipment in the jurisdiction of 62-CSB Rawalpindi without open competitive bidding during financial year 2017-18 as detailed below :

Sl. No	Item No.	Description	Amount (Rs)
1	05	Repair of vehicles	1,290,050
2	06	Repair of Machinery & Equipment	2,585,310
3	07	Repair of AC units	905,072
Total			**4,780,432**

The matter was reported to the management and head of formation during November 2018. It was replied that all objected amounts were less than Rs 100,000, therefore advertisement through PPRA was not exercised. The reply was not acceptable as the expenditure was incurred on the basis of quotations in splitting manners. The amounts were more than Rs 100,000 which required tendering.

DAC in its meeting held on 29th November, 2018 directed the management to get the expenditure regularized from Board of Directors.

Audit recommends compliance of the DAC directives.

(DP No. 221)

6.5 Internal Control Weaknesses

6.5.1 **Unjustified payment of electricity charges against detection bill – Rs 7.354 million**

According to para 1(d) of policy and procedure on detection bills of WAPDA, the detection bills not to be raised against the meters having broken or bogus seals. However, detection bill will be raised in case where, theft has been established.

SCO management received a theft notice along with detection bill of Rs 5,627,765 from Islamabad Electric Supply Company (IESCO) in May, 2017. This amount was increased subsequently to Rs 7,353,656 due to inclusion of surcharge and subsequently the whole amount was paid by SCO during 2017-18.

The matter was reported to PAO and management during October, 2018. It was replied by the management that the construction of NGMS buildings needed enhancement of already installed electricity load. Subsequently, the IESCO authorities were approached for enhancement of load up to the capacity of 370 KW and 500 KW. During the period of approval, the existing load was enhanced through direct connection by SCO on the basis of verbal liaison with IESCO due to which detection bill was raised. The reply was not acceptable as the IESCO notice dated 07.05.2017 clearly showed that main WAPDA supply line was directly connected by SCO to enhance the load without prior approval of IESCO Authorities.

DAC in its meeting held on 29th November, 2018 directed the management to take up the case with WAPDA authorities for withdrawal of notice of theft.

Audit recommends that matter may be investigated and fix responsibility besides compliance of DAC directives.

(DP No. 162)

6.5.2 Unauthorized possession of SCO land by PTCL

According to article 40 of Re-organization Act 1996, notwithstanding anything contained in section 39, the telecommunication services, within the Northern Areas and Azad Jammu & Kashmir shall be operated by Special Communication Organization and the PTA shall issue a license to the organization accordingly. SCO took over possession of all telecom installations, networks and other fixed assets like lands and buildings in AJ&K from T&T in 1976 on the executive order of the Prime Minister of Pakistan. DOMSAT Earth stations Gilgit and Skardu were installed in 1988 with the funding of Government of Pakistan. T&T staff was employed at the DOMSAT for the facilitation and provision of technical support to SCO.

Contrary to the above, DOMSAT Earth Station Skardu along with Land was under unauthorized possession of Pakistan Telecommunication Company Limited (PTCL) since its inception. It was also noticed that the mutation of said land was also got transferred by PTCL in its name through the alleged collaboration of revenue department of Gilgit Baltistan.

The matter was reported to PAO and management during October, 2018. The management replied that the case was already under litigation.

DAC in its meeting held on 29th November, 2018 directed the management to pursue the case against possession of Land.

Audit recommends expeditious pursuance of the case for early vacation of occupied land from PTCL under intimation to audit.

(DP No. 199)

6.6 Receivables

6.6.1 **Non-recovery of outstanding dues from subscribers and telecom operators- Rs 36.236 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.

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 36,236,403 from M/s PTCL on account of DPLC, Co-Location charges and from various designated customers on account of working connections, Digital Cross Connect (DXX), casual telephone connections, & defaulters / court cases during 2017-18. The detail is as under:

Sl. No.	DP No	Subject	Amount (Rs)	Amount verified	Balance amount
1	59-19	Non-recovery of outstanding dues	824,632	218,430	606,202
2	148-19		769,020	228,719	540,301

3	227-19	from subscribers	3,544,367	835,744	2,708,623
4	161-19	Non-recovery from telecom operators	32,381,277	0	32,381,277
Total			**37,519,296**	**1,282,893**	**36,236,403**

The matter was reported to PAO and management during August to November, 2018. It was replied that efforts were being made to recover the balance amount. Audit had verified recovery particulars of Rs 1,282,893. However, the balance amount of Rs 36,236,403 could not be recovered till finalization of this report.

DAC in its meeting held in 29th November, 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. 59,148,161 & 227)

CHAPTER-7

TELEPHONE INDUSTRIES OF PAKISTAN

7. TELEPHONE INDUSTRIES OF PAKISTAN PRIVATE LIMITED

7.1 Introduction

Telephone Industries of Pakistan (TIP) is a private limited company incorporated in 1953 in collaboration with M/s Siemens under the Companies Act 1913 (Now the Companies Act, 2017). TIP is working under the control of the Ministry of Information Technology and Telecom Division (MoIT&T). At present MoIT has submitted re-vitalization plan of TIP to ECC which also includes bailout plan to settle liabilities of TIP. Government of Pakistan owns the entire shareholding of the company through MoIT.

The company is engaged in manufacturing and sale of telephone sets, telephone exchanges, allied equipment and energy meters etc. It also provides services for installation and commissioning of telephone exchanges to telecom operators.

7.2 Comments on Budget and Accounts

TIP management did not provide the annual audited accounts till the finalization of the Audit Report. Hence, no comments on accounts could be made.

7.3 Status of Compliance with PAC Directives

<u>Telephone Industries of Pakistan,</u>
<u>Ministry of Information Technology</u>

Following table shows the compliance status of PAC directives:

Sl. No.	Audit Year	Total Paras	Total Directives	Compliance		%age
				Received	Not received	
01	1990-91	18	18	13	05	72
02	1992-93	19	19	19	00	100
03	1996-97	09	05	02	03	40
04	1997-98	04	04	04	00	100
05	2010-11	27	27	14	13	51
06	2013-14	17	02	01	01	50

AUDIT PARAS

7.4. Irregularity & non-compliance

7.4.1 Excess Procurement of Stores - Rs 11.080 million

According to Rule 145 of GFR Vol-I, purchases must be made in the most economical manner in accordance with the definite requirements of the public service.

Contrary to the above, it was observed that one store item titled High Density Black Powder weighing 134,750 kg @ Rs 95.20 per kg was purchased and received in store vide IGR No 19303 dated 22.02.2006. The subject purchase was made for manufacturing of Drop wire. The above cited store item weighing 116,390 KG @ Rs 95.20 per kg amounting to Rs 11,080,328 was lying in the store since 17-10-2012 and there was no movement of store for the last six years.

Audit pointed this out to the head of the formation /management during August, 2018. It was replied that TIP was making efforts for the disposal of store after fulfilling all codal formalities. The reply was not acceptable as no concrete efforts were made to dispose of huge quantity of dump material and the money was blocked since the year 2012.

DAC in its meeting held on 28th November, 2018 directed the TIP management to dispose off the store at the earliest and get it verified from Audit.

Audit recommends that the store may be disposed off at the earliest under intimation to audit.

(DP No.86)

7.4.2 Irregular appointments without adopting proper procedure - Rs 2.221 million

According to recruitment policy for Federal Services/ Autonomous Bodies/ Corporations issued by Cabinet Secretariat Establishment Division vide letter No F.53/1/2008-SP dated 22.10.14, the recruitment to posts in BPS-16 and above shall continue to be made through the Federal Public Service Commission.

Contrary to the above, it was observed that temporary appointments against three positions were made by the MD TIP during Oct-16 to March-17 without adopting any procedure. These appointments were continued and extended upto September, 2017. Afterwards the management hired the services of these officers on contract basis through M/s E-Square, Islamabad and these employees were working till date. An amount of Rs 2,221,450 was paid to the officers w.e.f. Oct-2016 to June-2018 which was held irregular.

Audit pointed this out to the head of formation / management during August, 2018. It was replied that TIP being company, its Board of Directors was fully authorized to make hiring of employees. Moreover, MD TIP was fully empowered to hire employees upto BPS-19. The reply was not acceptable as the appointments were made by the Managing Director in violation of above instructions and these vacancies were not filled through fair and merit based competition and advertisement in the newspapers.

DAC in its meeting held on 28th November, 2018 directed TIP management to obtain the clarification from Cabinet Division and get the expenditure regularized from the Board.

Audit recommends that necessary clarification may be sought from quarter concerned and expenditure be got regularized under intimation to audit.

(DP No.83)

7.4.3 Non-deduction of Services Tax on security services - Rs 1.134 million

According to Sr. No 12, Schedule II of KPK Finance Act 2013, tax @ 10% without any input adjustment will be levied on services provided or rendered by specialized agencies, security agency, market research agency & other such agencies.

Contrary to the above, it was observed that an amount of Rs 11,388,289 was paid to Safety and Security Services Pvt. Ltd during financial year 2017-18 but services tax on security services @ 10% i.e. Rs 1,133,829 was not deducted by the management of Telephone Industries of Pakistan (TIP), Haripur.

Audit pointed this out to the head of the formation /management during August, 2018. It was replied that tax @ 10% as per KPK Finance Act 2013 was not applicable on TIP being federal entity. The reply was not acceptable as the services tax is fully applicable on security services as per KPK Finance Act, 2013.

DAC in its meeting held on 28th November, 2018 directed TIP management to obtain the clarification from Ministry of Law and get it verified from Audit.

Audit recommends compliance of the DAC directives.

(DP No.89)

7.5 Performance

7.5.1 Blockage of public money due to production of 2500 steno telephone sets without order -Rs 15 million

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

Contrary to the above, it was observed that TIP started production of 2500 steno telephone sets on the verbal instructions of MD TIP in January 2017 without having any order. This production was continued and completed in May 2018 with a time period of one and a half year as was evident from the ledger cards. Once the production was completed, no efforts were on record to sell these telephone sets. The expected sale price of each telephone set was Rs 6,000 and an amount of Rs 15,000,000 had been blocked which was indicative of poor planning and blockage of capital.

Audit pointed this out to the head of the formation / management during August, 2018. It was replied that 2500 steno sets were produced, out of which 215 had been sold. Ministry of Defence, Cabinet Division and NTC had been approached for sale of remaining steno sets. The reply was not acceptable as the management had started production of telephone sets without having any order and the public money was blocked. Further, no efforts had been made to dispose off the requisite stock.

DAC in its meeting held on 28th November, 2018 directed TIP management to get the record of telephone sets sold verified and efforts be made to sell out the balance sets.

Audit recommends compliance of the DAC directives. In addition, inquiry may be conducted to ascertain reason for production of telephone sets without any demand.

(DP No.84)

CHAPTER-8

UNIVERSAL SERVICE FUND COMPANY

8. UNIVERSAL SERVICE FUND COMPANY

8.1 Introduction

Federal Government established a fund with the name Universal Service Fund under Section 33A of Pakistan Telecommunication (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.

8.2 Comments on Budget and Accounts

8.2.1 As per note 8.1 to the financial statements, no progress against the advances given to the related parties was recorded against the advance payment of Rs 310 million to PTML-BSD Dera Bughti for the last two years.

8.3 Status of Compliance with PAC Directives

USF Co, Ministry of Information Technology

No PAC meeting had been convened till date.

AUDIT PARAS

8.4 Irregularity & non-compliance

8.4.1 **Irregular award of project without obtaining insurance documents – Rs 2,644 million**

According to clause 7.02 (c) of Article 7 of Service & Subsidy Agreement (SSA), within 30 days of the Effective Date, the USF Service Provider shall have the insurance specified herein in full force and effect and shall provide USF Company with certificates of insurance as an evidence of such insurance in such form and scope acceptable to USF Company.

It was observed that contracts amounting to Rs 2,644 million were signed between USF Company and service providers for Optic Fiber KPK, FATA Package-1 and establishment of computer labs under special projects. The contracts were signed and payment was also released but the insurance documents were neither obtained nor submitted by the contractor in violation of the above. Therefore, the award of contract and release of payment stands Irregular.

Audit pointed this out to the management and PAO during September 2018. It was replied that the matter was already taken up with the PTCL management for providing the insurance documents as per clause 7.02 of Article 7 of Service & Subsidy Agreement. Upon receipt of the insurance documents from PTCL, these would be presented to Audit in due course of time. As regard to special projects the amendments were under way and the same would be shared with the Audit accordingly in due course. The reply was not acceptable as the contracts were signed in March and June 2018 respectively and release of payment was started from but the insurance documents were not obtained.

DAC directed USF management to provide the insurance documents to Audit for verification within one month.

Audit recommends that requisite insurance documents may be obtained and got verified from Audit.

(DP No.62 & 70)

8.4.2 Unauthorized expenditure on up-gradation of IT infrastructure - Rs 14.916 million

According to section 33 B (2) of Pakistan Telecommunication (Re-organization) amended 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. Furthermore, DAC in its meeting held on 26thDecember, 2017 while discussing PDP No.40-2017 settled the para subject to incurrence of expenditure in future as per USF Rules and policy.

It was observed that USF Company incurred an expenditure of Rs 14,915,719 on up-gradation of IT infrastructure and renovation of server room and allied areas of MoIT during 2015-16 to 2017-18. The Management did not comply with the DAC directives and allocated budget during 2016-17 and also incurred an expenditure of Rs 9,969,724 during 2017-18 in violation of the Rules. Therefore, Audit was of the view that expenditure incurred during 2015-16 and 2017-18 was in violation of the Rules. Detail is as under:

Sl. No	Vr. No. & date	Description	Amount (Rs)
01	064/30.10.2017	Up-gradation of IT infrastructure, Hardware & Software	7,543,126
02	027/11.01.2018	Purchase of laptops and printers with installation for MOIT&T	2,426,598

03	Not available	Expenditure on infrastructure expansion / renovation of server room and allied areas of MoIT	4,945,995
		Total	**14,915,719**

It was further observed that M/s Hardbone, the contractor lodged a complaint in Wafaqi Mohtasib (OMBUDSMAN) stating the fact that project was awarded by USF but actual and additional work was done in MoIT&T. The Wafaqi Mohtasib decided that it was a contractual matter which require detailed examination for which proper forum was a Court. The complaint further showed that the contractor had served six reminders to Ministry as well as USF for payment. Despite repeated requests by Audit, the USF Company did not provide the copies of reminders of the contractor, original BOQ and detail of additional cost. Audit approached the concerned firm on 05.09.2018 and the contractor provided copies of all reminders and detail of additional work of Rs 1.713 million. The contractor further provided an acknowledgement receipt which was totally different from the acknowledgement receipt available with the USF Management. Hence, Audit is of the view that the decision of the Wafaqi Mohtasib and circumstances as mentioned above required detailed examination through a fact finding inquiry in the instant case to proceed further in the matter.

Audit pointed this out to the management and PAO during September 2018. It was replied that USF was established in the premises of MoIT&T. MoIT&T was responsible for administration and management of USF under Pakistan Telecommunication (Re-organization) Act and USF Rules 2006. The existing IT infrastructure at MoIT was inadequate to meet the requirement of the organization. Further, as per contract agreement M/s Hardbone International (Pvt) Ltd and MoIT had submitted a job completion certificate dated 27th June 2016 which was self-explanatory. It is further pointed out that if M/s Hardbone International carried out additional work in the MoIT, USF Co was not responsible. The reply was not acceptable as the expenditure was not incurred for USF but for MoIT which was against the provisions of Act and USF Rules. The documents provided by the contractor clearly showed additional work done at MoIT&T against project awarded by USF. The acknowledgement receipts with USF and the contractor were different and required proper investigation.

DAC in in its meeting held on 29th November, 2018 directed for a Fact Finding Inquiry (FFI) in the instant case within one month.

Audit recommends compliance of the DAC directives.

(DP No.74)

8.4.3 Irregular expenditure without tender – Rs 2.164 million

According to Rule 12 of Public Procurement Rules 2004 the 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. Rule 21 *ibid* further states that the procuring agencies shall engage in open competitive bidding if the cost of the object to be procured is more than one hundred thousand rupees.

In violation of the above, the management of USF Company incurred an expenditure of Rs 2,164,096 on event management without open tenders during 2017-18.

Sl. No	**Voucher No & Date**	**Description**	**Firm**	**Amount (Rs)**
01	026/ 06.06.18	Payment against USF event "Meet the Girls Who Code"	M/s Channel 7 Communications (Pvt) Ltd.	1,160,580
02	071/ 21.02. 18	Event Management of contract signing of BSDP in FATA and DI Khan	M/s Channel 7 Communications (Pvt) Ltd.	1,003,516
			Total	**2,164,096**

Audit pointed this out to the management and PAO during September 2018. It was replied that Channel 7 Communication was on the panel of USF for advertising agencies. These advertising agencies were hired for issuance of advertisements of USF and handling the marketing activities of USF which involved organizing events. Further, panel of advertising agencies were made in consultation with Press Information Department (PID) as per their standard process for formation of panel of advertising agencies. The reply was not acceptable because the panel agencies were selected through Press Information Department being advertising agencies and not for event management. Hence, the expenditure treated as irregular being incurred without open tender.

DAC directed USF management to get the expenditure regularized from the Board of Directors.

Audit recommends that expenditure may be regularized from competent forum.

(DP No.64)

8.4.4 Irregular appointment and expenditure on pay & allowances – Rs 1.552 million

According to section 10 of Civil Servants Act, 1973, every civil servant shall be liable to serve any-where within or outside Pakistan, in any [equivalent or higher] post under the Federal Government, or any Provincial Government or local authority, or a corporation or body set up or established by any such Government or through his posting on deputation basis in terms of Sr. No. 29 of Civil Establishment Code.

It was observed that Mr. Muhammad Nabeel Afzaal, a BS-19 officer previously working as Deputy Secretary, Prime Minister's Office (Public), Islamabad was transferred and his services were placed at the disposal of MoIT vide Establishment Division vide letter No.3/18/2016-E-2-E-4 dated 17th May, 2018 till further orders under section 10 of Civil Servant's Act 1973. MoIT further transferred and placed the services of the officer at the disposal of Universal Service Fund (USF) vide letter F.No.1-205/2018-Admn dated 21st May, 2018. The matter was placed before the USF Board and the Board approved the appointment / posting through circulation. The Board further directed the CEO USF Company to issue appointment / posting letter and fix remuneration of the officer. The USF Company executed an employment contract for a period of three years (extendable) vide letter No.USF/HR/MNF/OL dated 25th May, 2018. Following irregularities were observed:

(i) The Board resolution did not specify the appointment / posting as on deputation, temporary transfer or permanent absorption. Any Civil Servant can be posted on deputation in other departments at the standard terms and conditions of ESTA Code vide Sl.No.30. Furthermore, the civil servant on deputation would continue to be under the rule making control of the lending government. The terms and conditions of civil servant cannot be changed without consulting the lending government (Sl.No.30 para 12). Therefore, the appointment of a Civil Servant on contract basis without resignation from previous job was unlawful being in violation of standard terms and conditions. The recruitment process and execution of employment contract by USF Company with the officer was also unlawful.

(ii) The pay & allowances of the officer were offered and fixed unlawfully as Rs 480,000 per month and additionally allowed all benefits as admissible to the USF Company employees. However, the pay & allowances of civil servant on deputation were required to be fixed according to his Last Pay Certificate whereas neither such LPC was available in his personal file nor he provided it despite repeated requests. Therefore, the expenditure on account of pay & allowance of Rs 1,552,000 and other benefits stands unauthorized. Detail is as under:

Pay per Month	**Rs 480,000**	
Pay w.e.f 25.5.18 to 31.5.18 (7 days)	480,000 / 30 x 7	112,000
Pay for June 2018 to August 2018 (3 Months)	480,000 x 3	1,440,000
Total		**1,552,000**

(iii) The USF Company have gratuity scheme instead of pension. However, the officer was a regular civil servant and availed the pension benefits scheme. In case the officer availed the pension scheme the pension contribution was required to be deposited by the officer himself but the record did not show his deposit of pension contribution.

Audit pointed this out to the management and PAO during September 2018. It was replied that the case regarding posting of Mr. Muhammad Nabeel Afzal was placed before the Board for perusal through circulation. The Board had resolved and approved his placement in the USF Company as Senior Manager. In the light of approval of the Board, the officer had assumed his charge for the post of Senior Manager in company on 25th May 2018 and his salary got fixed in line with comparison of other officers working in the same position considering his qualification and experience. Terms and condition offered to the officer was as per HR Manual of USF Company. Request for issuance of LPC had already been forwarded to AGPR vides Prime Minister Office (Public) Islamabad letter No F-1 (409)/PF-B&A) dated 13th August 2018. The reply was not acceptable as the services of Civil Servant can be placed under section 10 of Civil Servants Act, 1973 under standard terms and conditions. The pay and allowances were also required to be fixed according to the standard terms and conditions and according to the Last Pay Certificate (LPC).

DAC in its meeting held on 29th November, 2018 directed USF management to seek clarification from Establishment Division through MoIT and get it verified from Audit.

Audit recommends that matter be investigated at appropriate level for facts finding besides fixation of pay and allowances according to the LPC along with recovery of overpayment made to the officer.

(DP No.63)

8.5 Receivables

8.5.1 Non-recovery of outstanding USF dues – Rs 16.950 million

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

It was observed that the Fund Management failed to recover an amount of Rs 16,949,627 on account of USF contributions against the billing issued by PTA during 2017-18. Detail is as under:

Sl. No	Name of Operators	Billing (Rs)	Received (Rs)	Balance (Rs)
01.	Dancom Pakistan	1,789,879	1,787,183	2,696
02.	PMCL (Mobilink)	1,871,839,196	1,861,968,328	9,870,868
03.	Naya Tel	690,678	0	690,678
04.	Starlite	40,946	0	40,946
05.	Wateen Telecom	79,216,595	76,057,597	3,158,998
06.	Web Concept	498,020	1,156	496,864

07.	Worldcall Telecom	4,385,673	1,697,096	2,688,577
	Total	**2,007,694,989**	**1,950,385,230**	**16,949,627**

Audit pointed this out to the management and PAO during September 2018. It was replied that as per USF Rules 2006 the Authority shall monitor and enforce the obligations of the relevant licensees to make USF contributions in a timely and proper manner. PTA had already been advised to realize the money at the earliest for deposit with the Government treasury. The reply was not acceptable as Ministry of Information Technology (IT & Telecom Division) letter No.18-2/2009-DT dated 5thJuly, 2013 states that all the operators must pay USF, APC for USF, Sale proceeds from the auction of the right to use spectrum and R&D funds related contributions directly to the Ministry of IT exclusively. The licensees' obligation to make such payments to PTA will not discharge their obligation for payment of Fund related contributions to USF/R&D Fund MoIT.

DAC in its meeting held on 29th November, 2018 directed USF management to attend the USF Rules 2006 and get it verified from Audit.

Audit recommends compliance of the DAC directives.

(DP No.77)

8.5.2 Non-recovery on account of APC for USF – Rs 1,027.242 million

According to Section 10 Sub Section (2) of Access Promotion Regulation, 2005, "An LDI licensee shall make payment into the designated bank account within a time period not exceeding ninety (90) days from the close of the month to which such payment relates. Para 4.4.2 of General conditions of license states that in addition to any other remedies available to the Authority, late payment of all fees including initial license fee shall incur an additional fee calculated at the rate of 2% per month on the outstanding amount for each month or part thereof from the due date until paid.

Ministry of Information Technology (IT & Telecom Division) letter No.18-2/2009-DT dated 5th July, 2013 states that all the operators must pay USF, APC for USF, Sale proceeds from the auction of the right to use spectrum and R&D funds related contributions directly to the Ministry of IT exclusively. The licensees' obligation to make such payments to PTA will not discharge obligation for payment of Fund related contributions to USF/R&D Fund MoIT. Failing to comply with the directives the status of such licensees would be considered as defaulter. The Authority was directed to refrain from receiving fund related contribution from licensees anymore and should direct them to make payment directly to the MoIT.

It was observed that as a result of reconciliation of dues with PTA revised demand notice amounting to Rs 1,027.241 million on account of APC for USF was incorporated in the party wise ledger of the Fund during 2017-18. However, the recovery of the requisite amount had not been made so far, which indicated weak receivable management. Detail is as under:

S.No	**Name of Operator**	**Amount (Rs)**
01	M/s Link Direct International (Pvt) Ltd.	173,715,491
02	M/s Telenor Pakistan (Pvt) Ltd.	853,526,126
	Total	**1,027,241,617**

Audit pointed this out to the management and PAO during September 2018. It was replied that APC had been discontinued and most of the operators were in court against the Authority. However, PTA had been advised to recover the amount from operator and the Authority had assured for active pursuance on the matter. The reply was misleading and therefore not acceptable.

Ministry of Information Technology (IT & Telecom Division) letter No.18-2/2009-DT dated 5thJuly, 2013 states that all the operators must pay USF, APC for USF, Sale proceeds from the auction of the right to use spectrum and R&D funds related contributions directly to the Ministry of IT exclusively.

DAC in its meeting held on 29th November, 2018 directed the Fund management to get the adjustments verified from Audit within one month.

Audit recommends compliance of the DAC directives.

(DP No.78)

ANNEXURES

Annexure-I

MFDAC PARAS

(Rs in million)

Sl. No.	DP No	Subject	Amount
1.	**PAKISTAN TELECOMMUNICATION AUTHORITY (PTA)**		
01	97-19	Loss due to illegal use of frequencies by M/s CMPAK (Zong) Pvt Ltd	29,500.000
02	101-19	Non-preparation / approval of framework to treat OTT/VOIP and renewal of licenses	0
03	102-19	Non-issuance of frame work for frequency spectrum	0
04	103-19	Non-formulation / approval of tariffs regulations	0
05	105-19	Non-revocation of licensee	0
06	110-19	Non-transfer of USF contributions to AJ&K and GB USF companies / Councils	182.491
07	113-19	Non-surrender of savings to FCF	621.943
08	116-19	Non-submission of Annual Audited Accounts by the Telecom Operator	0
09	117-19	Improper functioning of Oracle Accounting Software	0
10	118-19	Non-finalization of Court cases and irregular payment of legal fee	5.406
11	119-19	Non-formulation of regulations or SOPs	0
12	120-19	Non-deduction of Tax on Services	2.149
13	121-19	Irregular appointments on additional charge basis	1.703
14	122-19	Irregular retention of cash in DDO / Imprest Accounts	68.230
		Total	**31,222.972**

(Rs in million)

Sl. No.	DP No	Subject	Amount
2.	**FREQUENCY ALLOCATION BOARD (FAB)**		
01	130-19	Non-issuance of frame work for frequency spectrum	0
02	132-19	Loss to government exchequer due to illegal use of frequency	491.000
03	134-19	Non-refarming of Spectrum in 1900 MHz Band	0
04	135-19	Non-allocation/availability of Spectrum for auction on 3G/4G in AJK/GB	0
05	137-19	Non-preparation/approval of technical regulations	0
06	138-19	Blockade of public assets due to non-utilization and non-allotment of quarters	0
07	140-19	Non-acquisition of accounting software	0
08	141-19	Non-utilization of projects budget	30.402
09	142-19	Huge expenditure in the month of June to avoid surrender of savings and irregular	346.513
		Total	**867.915**

(Rs in million)

Sl. No.	DP No	Subject	Amount
3.	**NATIONAL RADIO TELECOMMUNICATION CORPORATION (NRTC)**		
01	231-19	Irregular procurement against foreign purchase orders without tendering	376.614
02	250-19	Non-adjustment / recovery of TA / DA advances	5.231
03	251-19	Non-adjustment / recovery of temporary advances	7.412
		Total	**389.257**

(Rs in million)

Sl. No.	DP No	Subject	Amount
4.	**IGNITE NATIONAL TECHNOLOGY FUND COMPANY**		
01	187-19	Unjustified expenditure on account of repair and maintenance of building	1.535
02	188-19	Irregular expenditure on Janitorial Services	0.720
03	190-19	Un-authorized expenditure on hiring of transport facilities	0.605
		Total	**2.860**

(Rs in million)

5.	**NATIONAL TELECOMMUNICATION CORPORATION (NTC)**		
01	02-19	Irregular expenditure beyond the limit of approved PC-II	3.003
02	11-19	Unauthorized placement of funds in NTC account	2.000
03	12-19	Non-approval of NTC budget for the year 2017-18	4,955.832
04	14-19	Non-achievement of objectives and shortfall of revenue	188.082
05	17-19	Provisional payments of fee to PTA due to delayed finalization of annual audited accounts resulting in excess payment	3.471
06	18-19	Weak financial management resulted into disputed payments on account of Annual Regulatory Dues	0
07	19-19	Delayed deposit of cheques	104.837
08	23-19	Unrealistic ADP targets and non-achievement of revised targets	1,346.711
09	28-19	Unlawful payment against the post of Manager Commercial	1.318
10	35-19	Non-realization of damages charges from contractors	20.859

11	36-19	Loss due to non-auction of laid cable	5.442
12	40-19	Irregular payment of Media / DSL service charges to M/s Wateen Telecom and M/s Multan Internet Services	2.349
13	44-19	Irregular expenditure for replacement of SDH equipment	1.162
14	46-19	Loss due to theft of battery banks	0.198
15	48-19	Irregular payment of Income Tax on electricity bills	0.360
16	49-19	Renting out of space without tender and excess deduction of income tax	4.297
17	54-19	Loss due to ill planning of NTC management zxsdc	20.617
18	57-19	Loss of public money due to non-recovery of standard rent	0.900
19	144-19	Delayed completion of project, anticipated loss of revenue and non-deduction of services tax	16.909
20	152-19	Irregular expenditure on payment to M/s Nayatel against Inter Company Claims	0.824
21	205-19	Irregular payment of Income Tax on electricity bills	1.200
22	206-19	Non-deduction of Sales Tax on Services	0.308
23	211-19	Irregular expenditure on payment to Security Guards	2.274
24	212-19	Irregular payment of income tax on electricity bills	2.823
25	214-19	Loss due to non-renting out of spare space of NTC building	15.238
26	256-19	Non-deduction of Sindh Sales tax on Janitorial Services and short deduction of withholding tax	0.064
27	257-19	Non-recovery of standard rent from unauthorized occupants / retired officers	0.199

28	258-19	Unlawful re-constitution of NTC Management Board and re-designation of Post	0
29	259-19	Improper / non-functioning of Internal Audit Wing	0
		Total	**6,701.277**

(Rs in million)

Sl. No.	DP No	Subject	Amount
6.	**SPECIAL COMMUNICATION ORGANIZATION (SCO)**		
01	153-19	Non-deduction of water charges from contractor	0.170
02	155-19	Non-deduction of PST from contractors	1.213
03	164-19	Unauthorized expenditure on contingency	1.000
04	165-19	Overpayments on building works	0.151
05	170-19	Doubtful expenditure on purchase of land	1.300
06	174-19	Loss due to non-achievement of planned objectives	814.501
07	175-19	Non-production of record against allocation for the year 2017-18	0
08	176-19	Irregular transfer funds to next Financial Years	2.357
09	179-19	Loss to the department due to deduction of Extra Tax	1.408
10	181-19	Incompatible deposit of advance Income Tax & W.H.T	123.418
11	183-19	Irregular procurement of vehicles	11.323
12	194-19	Irregular expenditure on building works	14.696
13	196-19	Unauthorized purchase of transformer	1.950
14	197-19	Mis-procurements against electric appliances and repair / maintenance works	2.867
15	222-19	Irregular / unjustified transfer of Income Tax and GST	1.714

16	226-19	Un-justified payment of incentive to staff	0.317
Paras of PAR titled “Laying of OFC to connect remote locations of AJK & NA			
17	PAR	Irregular engagement of Project Director and payment	6.568
18	PAR	Unauthorized re-appropriation of funds and non-surrendering of savings	43.101
19	PAR	Overpayment to Project Director due to irregular increase in pay	5.309
20	PAR	Overpayment to engineer/ expert due to irregular increase in pay	4.337
21	PAR	Non-confirmation of deposit of Income Tax and GST into govt. exchequer	25.183
22	PAR	Concealment of cost overrun under Project No III-2008-09	0
23	PAR	Unjustified expenditure on purchase of AC units for cold weather sites	0.540
24	PAR	Over-estimation of Project Cost	43.101
25	PAR	Undue favour to the contractors by making immature payment	311.389
26	PAR	Non-certification of commissioning of equipment	0
27	PAR	Non-elimination of call rejection after commissioning of OFC	0
28	PAR	No expansion in the infrastructure	0
29	PAR	Irregularities in handling and issue of store	0.133
30	PAR	Loss of Revenue due to Time Over Run	609.428
		Total	**1,049.089**

(Rs in million)

Sl. No.	DP No	Subject	Amount
7.	**TELEPHONE INDUSTRIES OF PAKISTAN (TIP)**		
01	85-19	Loss due to auction of vehicle in non-transparent manner	0.605
02	87-19	Non-closure of books of accounts for the year 2017-18	0
03	88-19	Difference in two sets of figures	248.198
04	90-19	Transfer of quarters and common pool building to Telecom staff college (PTCL) & NRTC without compensation	0
05	91-19	Non-deduction of services tax & Income Tax	0.314
06	92-19	Non-recovery on account of electricity due from Housing Society	1.167
07	93-19	Non-deposit of tax collected from suppliers	1.716
08	94-19	Non-deposit of advance income tax on auction of vehicle	2.065
		Total	**254.065**

(Rs in million)

Sl. No.	DP No	Subject	Amount
8.	**UNIVERSAL SERVICE FUND (USF) AND COMPANY**		
01	60-19	Irregular / unlawful expenditure on account of repair and maintenance of building	5.334
02	65-19	Irregular / unlawful expenditure on procurement for establishment of labs	299.509
03	66-19	Non-functional of trustees committee and non-investment of trust funds	55.732
04	73-19	Unauthorized preparation/approval of budget over & above the authorized limit	14263.711
05	79-19	Non-transfer of USF contributions to AJ&K and GB	56.996
		Total	**14,681.282**