# AUDIT REPORT
# ON
# THE ACCOUNTS OF
# PETROLEUM DIVISION
# AND
# OIL AND GAS REGULATORY AUTHORITY
# AUDIT YEAR 2019-20

## AUDITOR-GENERAL OF PAKISTAN

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## ABBREVIATIONS AND ACRONYMS

| | | | |
|---|---|---|---|
| ADP | Annual Development Programme | DG (PC) | Director General Petroleum Concession |
| AG | Accountant General | DGA, | Director General Audit, |
| AGP | Auditor-General of Pakistan | DGM | Deputy General Manager |
| AGPR | Accountant General Pakistan Revenues | DISCOS | Distribution Companies |
| AOC | Attock Oil Company | DLP | Defect Liability Period |
| APL | Attock Petroleum Limited | D&P | Development and Production |
| BoD | Board of Directors | E&P | Exploration & Production |
| BoM | Board of Management | ECC | Economic Co-ordination Committee |
| BoQ | Bill of Quantity | EFP | Engineering Field Party |
| CAO | Chief Accounts Officer | EOBI | Employees' Old-Age Benefits Institution |
| CCI | Council of Common Interest | EPC | Engineering Procurement Construction |
| CCP | Competition Commission of Pakistan | ERR | Estimated Revenue Requirement |
| CEO | Chief Executive Officer | EWT | Extended Well Testing |
| CF | Credit Finance | FBR | Federal Board of Revenue |
| CFO | Chief Financial Officer | FC | Frontier Corps |
| CGA | Controller General of Accounts | FCB | Frontier Constabulary of Balochistan |
| CMS | Consumer Meter Station | FCF | Federal Consolidated Fund |
| CNG | Compressed Natural Gas | FD | Finance Division |
| CNIC | Computerized National Identity Card | FDP | Field Development Plan |
| CPF | Central Processing Facility | FED | Federal Excise Duty |
| CPI | Consumer Price Index | FGCP | Field Gathering and Construction Party |
| CPPA | Central Power Purchasing Agency | FGF | Free Gas Facility |
| CSR | Corporate Social Responsibility | FIA | Federal Investigation Agency |

FRR Final Revenue Requirement

FY Financial Year

GCV Gross Calorific Value

GDS Gas Development Surcharge

GFR General Financial Rules

GHPL Government Holdings Private Limited

GIC Gas Internally Consumed

GIDC Gas Infrastructure Development Surcharge

GM General Manager

GoB Government of Balochistan

GoP Government of Pakistan

GoS Government of Sindh

GPPs Government Power Producers

GSD Gas Security Deposit

GSP Geological Survey of Pakistan

GSPA Gas Sales and Purchase Agreement

GST General Sales Tax

GTA Gas Transportation Agreement

HHU Hand Held Unit

HoD Head of Department

HR Human Resource

HSD High Speed Diesel

HSFO High Sulpher Furnace Oil

IA Implementation Agreement

IAS International Accounting Standards

IFEM Inland Freight Equalization Margin

IGFC Inspector General Frontier Corps

IPC Inter Provincial Coordination

IPPs Independent Power Producers

ISGS Inter State Gas System

JCR Job Completion Report

JJVL Jamshoro Joint Venture Limited

JV Joint Venture

KM Kilometer

KMI Key Monitoring Indicator

KPID Key Point Installation Division

LAC Land Acquisition Collector

LCDCL Lakhra Coal Development Company Limited

LD Liquidity Damages

LDC Lower Division Clerk

LMKR Land Mark Resources

LNG Liquefied Natural Gas

LOI Letter of Intent

LPG Liquefied Petroleum Gas

LPS Late Payment Surcharge

LSA LNG Service Agreement

MCF Metric Cubic Feet

| | |
|---|---|
| MD | Managing Director |
| MEPCO | Multan Electric Power Company |
| MFDAC | Memorandum for Departmental Accounts Committee |
| MMBTU | Million Metric British Thermal Unit |
| MMCF | Million Metric Cubic Feet |
| MNA | Member National Assembly |
| MOE-PD | Ministry of Energy-Petroleum Division |
| MP | Management Position |
| MPCL | Mari Petroleum Company Limited |
| MQTU | Mobile Quality Testing Unit |
| MRDL | MCC Resource Development Private Limited |
| MT | Metric Ton |
| MTBF | Medium-Term Budgetary Framework |
| MTOPP | Machike Tarujubba Oil Pipeline Project |
| NFR | Non Fuel Retailers |
| NG | Natural Gas |
| NGL | Natural Gas Liquids |
| NGRA | Natural Gas Regularity Authority |
| NHA | National Highway Authority |
| NICL | National Insurance Company Limited |
| NLC | National Logistic Cell |
| NOC | No objection Certificate |
| OCAC | Oil Companies Advisory Council |
| OEM | Original Equipment Manufacturer |
| OCM | Operational Committee Meeting |
| OGDCL | Oil and Gas Development Company Limited |
| OGRA | Oil and Gas Regulatory Authority |
| OMCs | Oil Marketing Companies |
| P&A | Plugged and abandoned |
| PAC | Public Accounts Committee |
| PAO | Principal Accounting Officer |
| PB&MC | Procurement Budget & Material Control |
| PBG | Performance Bank Guarantee |
| PCA | Petroleum Concession Agreement |
| PD | Project Director |
| PDC | Price Differential Claim |
| PDIL | Presson Descon International Ltd |
| PEC | Pakistan Engineering Council |
| PHA | Parks and Horticulture Authority |
| PICIC | Pakistan Industrial Credit and Investment Corporation |
| PIDC | Pakistan Industrial Development Corporation |
| PLL | Pakistan LNG Limited |

| | | | |
|---|---|---|---|
| PLTL | Pakistan LNG Terminal Ltd. | SCP | Supreme Court of Pakistan |
| PMDC | Pakistan Mineral Development Corporation | SECP | Securities and Exchange Commission of Pakistan |
| PO | Purchase Order | SGM | Senior General Manager |
| POL | Petrol, Oil and Lubricant | SML | Saindak Metals Limited |
| PPEPCA | Pakistan Petroleum Exploration & Production Companies Association | SMS | Service Meter Station |
| PNR | Petroleum and Natural Resources | SNGPL | Sui Northern Gas Pipelines Limited |
| PPL | Pakistan Petroleum Limited | SOP | Standard Operating Procedure |
| PPRA | Public Procurement Regulatory Authority | SRO | Statutory Regulatory Order |
| PPRs | Public Procurement Rules | SSGC | Sui Southern Gas Company Limited |
| PRL | Pakistan Refinery Limited | SST | Sindh Sales Tax |
| PSA | Petroleum Sharing Agreement | TA | Tripartite Agreement |
| PSEs | Public Sector Enterprises | T&D | Transmission and Distribution |
| PSO | Pakistan State Oil | TBS | Town Border Stations |
| PTPL | Punjab Thermal Power Limited | TCM | Technical Committee Meeting |
| R&D | Research & Development | TDE | Thermo Design Engineering |
| RLNG | Re-gasified Liquefied Natural Gas | TOP | Take or Pay |
| RoA | Return on Assets | UDW | Ultra Deep Well |
| ROs | Regional Offices | UFG | Un-accounted For Gas |
| RoW | Right of Way | VDR | Vehicle Daily Report |
| RRC | Rate Running Contract | WACC | Weighted Average Cost of Capital |
| SA | Supplementary Agreement | WHT | Withholding Tax |
| SAP | System Application and Product | WIO | Working Interest Owner |
| SBP | State Bank of Pakistan | WPPF | Workers Profit Participation Fund |

# Preface

Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973 read with Sections 8, 12 and 15 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001 require the Auditor-General of Pakistan to conduct audit of the receipts and expenditure from the Federal Consolidated Fund, Public Account and that of Government Commercial Undertakings and of any Authority or Body established by the Federation.

This report is based on audit of the accounts of Ministry of Energy (Petroleum Division) of Government of Pakistan and all the organizations under this Ministry for the financial year 2018-19. The report also includes results of audit of Oil and Gas Regulatory Authority under Cabinet Division. The Director General Audit Petroleum and Natural Resources, Lahore, conducted audit during the period from July 10, 2019 to November 15, 2019 on a test check basis, with a view to report significant findings to the relevant stakeholders. The main body of the Audit Report includes the systemic or significant issues and audit findings of material nature under issue based audit. Sectoral analysis has been added in this report covering strategic review that presents an overall perspective of audit results. The relatively less significant issues have been listed in the **Annex-I** as MFDAC. These shall be pursued with the relevant Principal Accounting Officers of the Divisions at Departmental Accounts Committee level.

Most of the observations included in this report have been finalized in light of the discussions held in Departmental Accounts Committee meetings.

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

-sd-

**(Javaid Jehangir)**

Dated: February 18, 2020 **Auditor-General of Pakistan**

# EXECUTIVE SUMMARY

The office of the Director General Audit, Petroleum and Natural Resources, Lahore (DGA, PNR) carries out audit and evaluation of Ministry of Energy (Petroleum Division), Public Sector Enterprises under the Ministry and Oil & Gas Regulatory Authority under Cabinet Division. Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973 read with Sections 8, 12 & 15 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 empower the Auditor-General of Pakistan to conduct audit of Public Sector Enterprises. The audit was carried out on test check basis in accordance with Financial Audit Manual.

The annual budget of the Director General Audit, Petroleum & Natural Resources Lahore allocated for audit for the year 2019-20 amounted to Rs 140.848 million. This report contains results of audit inspection and evaluation of financial performance of entities under the jurisdiction of this office for the financial year 2018-19 conducted during the audit year 2019-20.

This report also contains comments on the audited annual accounts of 12 Public Sector Enterprises / Authority (9 pertain to the financial year 2018-19 and 3 to the previous years). However, comments on the accounts of 6 organizations (**Annex-2**) could not be included in this report as the concerned management did not submit their audited accounts by the prescribed date i.e. December 31, 2019.

## a. Scope of Audit

This office is mandated to conduct audit of revenue and expenditure of Ministry of Energy (Petroleum Division), 16 Public Sector Enterprises / institutes under this Ministry and Oil & Gas Regulatory Authority under Cabinet Division. Total expenditure and Non-Tax Receipts of these formations was

Rs 5,383.908 billion and Rs 346.662 billion respectively for the financial year 2018-19.

Audit coverage relating to expenditure for the current audit year comprises formations of Ministry of Energy (Petroleum Division), 13 Public Sector Enterprises / institutes and Oil & Gas Regulatory Authority under Cabinet Division having a total expenditure of Rs 5215.622 billion for the financial year 2018-19.

Audit coverage relating to receipts for the current audit year comprises 4 formations of Ministry of Energy (Petroleum Division) having a total Non-Tax Receipts of Rs 346.662 billion for the financial year 2018-19.

This audit report also includes audit observations resulting from the audit of expenditure of Rs 655.188 billion for the financial year 2017-18 pertaining to 5 Public Sector Enterprises working under Petroleum Division.

In addition to this compliance audit report, this office also conducted 2 financial attest audits, and 1 performance audit. Reports of these audits are being published seprately.

**b. Recoveries at the instance of audit**

As a result of audit, a recovery of Rs 1,100.643 billion was pointed out in this report. Recovery effected from January to December, 2019 was Rs 15,239.387 million which was verified by Audit.

**c. Audit Methodology**

The audit of the accounts for the FY 2018-19 of the audited organizations started from audit planning which included consulting and updating the permanent files. Desk audit and in-house audit planning sessions were held to develop understanding of the entities and define core objectives for the subject

audit exercise. Accordingly, high risk areas based on financial and managerial significance with reference to each entity were identified. Sources of information such as Government's regulations / BoD proceedings and other related events relevant to the audited organizations were used as reference. Audit checks were applied keeping in view the nature of transactions, accounting standards and best auditing practices. The audit exercise was conducted on a sample selection basis of relevant types of transactions in accordance with the guidelines provided in Financial Audit Manual.

**d. Audit Impact**

Audit contributed towards improving financial transparency and internal controls in the audited organizations through its findings. Management's adherence to competitive procurement processes, transparent recruitments and effective fund utilization was reinforced and further strengthened. The following incidents may be quoted as audit impact:

- SNGPL management was claiming HR cost on sales volume of both indigenous gas and RLNG, even OGRA also allowed this benchmark. However, company allocated all operating / HR cost to indigenous gas consumers in revenue requirement for the FY 2017-18. On pointation by Audit, the company and OGRA allocated operating / HR cost of Rs 789 million to RLNG consumers in the ERR for the FY 2019-20 thereby reducing extra burden on indigenous gas consumers.

- Based on Audit observations, DAC directed SNGPL management to segregate the fixed assets relating to indigenous gas and RLNG for revenue requirement purpose in the ERR for the FY 2017-18 which was corrected by SNGPL in FRR for the FY 2017-18 and subsequently allowed by OGRA. This resulted in reduction in revenue requirement and lessening of extra burden on indigenous gas consumers.

- After pointing out by Audit, the management of OGDCL started payment of royalty on insurance claims to Government in respect of crude oil transportation losses.

- Audit pointed out the matter of non-surrender of savings in funds received under Government directives in previous years. SNGPL management started working out savings in the project and matter relating to surrender of Rs 78 million had been taken up with the Federal Government. This would result in extra funds being available for other development projects.

- On pointation by Audit, OGDCL management started to deduct income tax on sale of vehicles to employees at market price.

- DG (PC) issued amended Training Funds Guidelines to pay TA, at higher rates rather than rates applicable to Government officers / officials, from training fund. On pointation by Audit, Training Funds Guidelines have been suspended by the PAO for its revision.

**e. Comments on Internal Controls**

Internal controls in any organization take the form of policies, procedures, rules, regulations and monitoring mechanisms etc. These controls help to prevent fraud, waste, inefficiency and enhance confidence level of the management. Internal controls are essential part of management's efforts to achieve its objectives and goals. A number of internal control weaknesses were observed during the audit and communicated to the respective management accordingly. A few instances are as follows:

- **Financial Management**

  Certain financial management weaknesses were noticed in Ministry of Energy (Petroleum Division) as no mechanism was in place for monitoring the assessment / collection of revenue receipts, recovery of arrears of GDS,

GIDC, Petroleum Levy and Royalties. As a result, cases of non-collection of non-tax receipts of Rs 146,076.199 million were noticed. In the case of OGDCL, PSO, PPL, SNGPL and SSGC, financial lapses were also noticed.

- **Employment of Human Resources**

  It was noticed that the Public Sector Enterprises were not observing regulations while making fresh appointments, re-employment of personnel and appointment of consultants etc. For example, in case of MoE-PD, OGDCL, PSO, SNGPL and SSGC discrepancies in the hiring process were identified.

- **Failure to perform key role by Internal Audit Department of OGRA**

  OGRA has internal audit department to keep proper check and balance on functions of departments of OGRA but the department failed to perform its key role and performed only pre-audit function.

**f. Key audit findings**

i. Non-production of record was reported in 4 cases.[1]

ii. 16 cases of non-recovery of receivables from consumers by public sector enterprises were noticed amounting to Rs 792,777.663 million.[2]

iii. Unlawful production of petroleum products either on expiry of D&P lease or at extended well testing stage was observed valuing 142,366.774 million.[3]

iv. Non-recovery of Non-Tax Receipts under different heads of accounts was reported amounting to Rs 146,076.199 million.[4]

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[1] Para 2.5.6.1, 2.6.6.1, 2.7.6.1, 3.1.7.1

[2] Para 2.2.6.38, 2.2.6.39, 2.2.6.41, 2.3.6.1, 2.3.6.4, 2.4.6.3, 2.4.6.4, 2.5.6.16, 2.5.6.17, 2.6.6.15, 2.6.6.16, 2.6.6.17, 2.6.6.18, 2.6.6.19, 2.6.6.20, 2.6.6.21

[3] Para 2.2.6.1, 2.2.6.2, 2.2.6.3

[4] Para 2.1.7.1, 2.1.7.2, 2.1.7.3, 2.1.7.5, 2.1.7.6, 2.1.7.9, 2.1.7.11, 2.1.7.13, 2.1.7.14, 2.1.7.15, 2.1.7.16, 2.1.7.24

v. Mismanagement in RLNG business was observed exposing PSEs to financial risk resulting in accumulation of huge arrears of Rs 105,681 million.[5]

vi. Non-recovery of late payment surcharge by PSO from various customers was noticed amounting to Rs 87,400 million.[6]

vii. The management of OGDCL delayed development of 12 fields discovered since 1989 to 2016 due to non-initiation of production of petroleum resulting in loss of potential revenue of Rs 69,401.789 million.[7]

viii. Loss on account of UFG due to negligence and poor performance of gas companies was reported amounting to Rs 63,285.171 million.[8]

ix. Delay in installation of LPG plant at Nashpa field caused loss of Rs 48,881 million.[9]

x. Gas utility companies claimed revenue requirements by not including all of their revenues consisting of other operating income of Rs 18,280 million and including exorbitant expenses on account of HR cost of Rs 26,211 million, which caused extra burden on gas consumers. [10]

xi. Irregular retention of deemed duty by a refinery was noticed amounting to Rs 24,186.155 million.[11]

xii. Loss due to unlawful flaring of gas by OGDCL was noticed valuing Rs 18,814.875 million.[12]

xiii. Non-completion of development works within stipulated time was noticed amounting to Rs 18,639.239 million. [13]

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[5] Para 2.1.7.32
[6] Para 2.4.6.2
[7] Para 2.2.6.67
[8] Para 2.5.6.11, 2.6.6.10
[9] Para 2.2.6.4
[10] Para 2.5.6.2, 2.5.6.44, 2.5.6.46, 2.5.6.48, 2.6.6.2, 2.6.6.3, 2.6.6.31
[11] Para 2.1.7.4
[12] Para 2.2.6.33, 2.2.6.45, 2.2.6.70, 2.2.6.72
[13] Para 2.5.6.34

xiv. OGDCL did not deposit sales proceeds of low pressure gas into Government exchequer amounting to Rs 4,666.609 million.[14]

xv. Loss of revenue due to installation of outdated plant by OGDCL and short realization of royalty was noticed amounting to Rs 2,715.520 million. [15]

xvi. OGRA invested surplus amount of Rs 1,909.969 million in treasury bills instead of depositing in Consolidated Fund.[16]

xvii. Non-pursuance of gas theft cases by gas utility companies was observed amounting to Rs 1,258.035 million.[17]

xviii. OGRA framed Service Regulations without concurrence of Finance Division resulting in irregular expenditure amounting to Rs 699.388 million.[18]

xix. Irregular appointments were noticed in 8 cases amounting to Rs 391.199 million.[19]

xx. Non-realization of late payment surcharge on Petroleum Levy due to non-framing of rules was noticed.[20]

**Recommendations:**

i. Petroleum and Cabinet Divisions are recommended to take disciplinary action against the person(s) responsible for non-production of record and ensure timely provision of record in future.

ii. The management of respective organizations must take necessary steps to recover the outstanding dues from consumers.

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[14] Para 2.2.6.71
[15] Para 2.2.6.44
[16] Para 3.1.7.6
[17] Para 2.5.6.13, 2.6.6.12
[18] Para 3.1.7.11
[19] Para 2.3.6.7, 2.3.6.8, 2.3.6.9, 2.3.6.10, 2.4.6.14, 2.6.6.7, 2.7.6.3, 3.1.7.13
[20] Para 2.1.7.8

iii. Petroleum Division may look into the matter of unlawful production of petroleum products and recover the due amount.
iv. Petroleum Division may take steps for early recovery of Non-Tax Receipts under different heads.
v. Petroleum Division should work in coordination with Power Division to streamline RLNG business by finalizing the TA-1 agreement between PSO, SSGC and SNGPL and back to back firm contracts with IPPs / GPPs and resolve the issue of circular debt.
vi. PSO should bring improvement in its financial management by putting in place a robust recovery apparatus to make its liquidity position healthy.
vii. Petroleum Division should make concerted efforts to develop the discovered fields.
viii. UFG reduction plan and Key Monitoring Indicators, as approved by OGRA, should be implemented in letter and spirit to reduce UFG losses.
ix. Petroleum Division may ensure that lessons learnt in the delayed installation of LPG plant at Nashpa may be kept in view while planning and implementing similar projects in future.
x. Cabinet Division and OGRA should ensure determination of revenue requirements of gas companies by including other operating income and rationalize the exorbitant transmission and distribution cost..
xi. Petroleum Division may probe the matter for irregular retention of deemed duty besides fixing responsibility against persons at fault for causing loss to Government.
xii. The management of PSE should implement rules and regulations in true letter besides recovering cost of gas.
xiii. The management of gas utility companies should complete the jobs within stipulated time and ensure appropriate action against the contractors who fail to complete the jobs.
xiv. Petroleum Division should implement flare gas utilization guidelines in true letter and spirit besides recovering the amount pointed out.

xv. OGDCL should ensure use of latest and state of the art technology at its fields.

xvi. Cabinet Division may inquire irregular investment in treasury bills besides depositing the same in Consolidated Fund and ensure compliance with Government directives in future.

xvii. The management of gas utility companies should make extra efforts to prevent the escalating trend of theft besides fixing responsibility on the persons at fault.

xviii. Cabinet Division may get the Service Regulations vetted from Finance Division besides regularization of expenditure.

xix. Appointments may be made in a transparent manner and according to respective HR policies of the organization with due regard to Government policies.

xx. Petroleum Division should make efforts for framing of rules for charging late payment surcharge on Petroleum Levy.

# Sectoral Analysis

This office is mandated to conduct audit of revenue and expenditure of Ministry of Energy (Petroleum Division), sixteen public sector enterprises / institutes under this Ministry and Oil & Gas Regulatory Authority under Cabinet Division. Under the Rules of Business 1973, the Ministry of Energy (Petroleum Division) deals with all matters relating to oil, gas and minerals at national and international levels. Its mandate and responsibilities include policy and planning regarding indigenous exploration, development and production of hydrocarbons / minerals. Further, it also governs import, export, refining, distribution, marketing and transportation of all petroleum and related products.

## Achievements against Targets

Petroleum Division measures its performance in terms of budget, geological surveys, distribution, exploration and production of oil and gas and other energy resources. A review of achievement of targets set in Mid-term Budgetary Framework (MTBF) for FYs 2017-18 and 2018-19 is tabulated below:

| Sr. No. | Item | Unit | 2017-18 | | | 2018-19 | | |
|---|---|---|---|---|---|---|---|---|
| | | | Target | Actual | % Achievement | Target | Actual | % Achievement |
| 1 | **Domestic Production** | | | | | | | |
| 1.1 | Crude Oil | M. B. | 35.45 | 32.88 | 93% | 32.5 | 21.86 | 67.26% |
| 1.2 | Gas | TCF | 1.51 | 1.48 | 98% | 1.51 | 0.96 | 63.57% |
| 1.3 | LPG | Tons | 750,000 | 800,000 | 107% | 880,000 | 805,000 | 91.47% |
| 2 | **No of Wells drilled** | | | | | | | |
| 2.1 | Exploratory | Nos. | 66 | 39 | 59% | 63 | 27 | 56.58% |
| 2.2 | Development | Nos. | 34 | 29 | 85% | 66 | 46 | 42.85% |
| 3 | **Gas Consumers Added** | | | | | | | |
| 3.1 | SNGPL | Nos. | 302,250 | 548,349 | 181% | 403,300 | 403,300 | 100% |
| 3.2 | SSGCL | Nos. | 416,973 | 650,339 | 156% | 117,995 | 121,137 | 102.66% |
| 4 | **Gas Network Extension by Gas Companies** | | | | | | | |
| 4.1 | SNGPL | Km | 10,930 | 13,219 | 121% | 8,585 | 4,743 | 55% |
| 4.2 | SSGCL | Km | 1.323 | 949 | 72% | 1,478 | 863 | 56% |

(Source: Annual Plan 2018-19 and 2019-20 by Planning Commission)

As can be seen from the above data, the Division has not been able to achieve its targets of production, wells exploration and gas network extension.

**Position of oil and gas reserves**

**Oil**

Domestic production was 21.86 million barrels in 2018-19 against target of 32.5 million barrels showing non-achievement of 33%. According to Petroleum Division, out of total oil reserves of 1,500 million barrels, 930 million barrels have been consumed leaving a balance of 570 million barrels of oil reserves in Pakistan.

**Oil Reserves (Million US Barrels) as on 30th June, 2019**

| Province | Original Recoverable | Cumulative Production / consumed | Balance Recoverable | %age |
|---|---|---|---|---|
| Balochistan | 1.8 | 0.2 | 1.6 | 0.28% |
| KPK | 252.6 | 143.7 | 108.9 | 19.16% |
| Punjab | 468.5 | 372.3 | 96.2 | 16.92% |
| Sindh | 775.9 | 414.1 | 361.8 | 63.64% |
| **Total** | **1498.8** | **930.3** | **568.4** | **100%** |

(Source: Petroleum Division )

The primary challenge that the Division confronts is the rapid decline in recoverable reserves despite fairly large amount of hydrocarbon resources underground.

**Gas**

Pakistan has over 61 TCF of natural gas, out of which around 40 TCF has already been consumed. As per Petroleum Division, domestic production of gas during 2018-19 was 0.96 TCF against the target of 1.51 TCF.

**Gas Reserves (TCF) as on 30th June, 2019**

| Province | Original Recoverable | Cumulative Production / consumed | Balance Recoverable | %age |
|---|---|---|---|---|
| Balochistan | 20.324 | 14.611 | 5.713 | 26.64% |
| KPK | 2.762 | 1.442 | 1.321 | 6.16% |

| Punjab | 3.959 | 2.293 | 1.666 | 7.77% |
|---|---|---|---|---|
| Sindh | 34.149 | 21.404 | 12.746 | 59.44% |
| **Total** | **61.194** | **39.75** | **21.446** | **100%** |

(Source: Petroleum Division)

Total demand of gas in the country is about 1.652 TCF[1] per annum whereas indigenous production is 0.96 TCF per annum leaving a deficit of 0.692 TCF per annum. In order to meet the deficit 0.365 TCF, LNG was imported during FY 2017-18 and 0.286 TCF during July 2018 to March, 2019. The shortage of gas was also met from local production of LPG (810,768 M. Tons) and from its import (251,604 M. Tons) during FY 2018-19.

## Minerals

Production of main minerals i.e. salt and coal was 1,473,387 ton and 546,167 ton respectively for the FY 2018-19[2] registering an increase of 4.77 % in salt and decrease of 15.69 % in coal. Further, chromite, magnesite, rock salt, barytes posted a positive growth of 228.69 percent, 159.63 percent, 12.65 percent, 22.15 percent, 19.12 percent respectively[3]. This represents potential in the sector which the Division needs to tap.

## Issues in Ministry of Energy (Petroleum Division)

Petroleum Division granted undue extensions in exploration licenses to E&P companies without showing any progress in work commitments of Rs 5,203 million[4]. The petroleum concession agreements and Petroleum Policy, 2012 are silent as to the penalties to be charged while processing a case of extension.

Petroleum Policy 2012 could not achieve its objectives. Production of indigenous oil and gas could not be enhanced as no lease was granted under the

[1] Economic Survey of Pakistan 2018-19 and Petroleum Industry Report 2017-18 (OGRA)
[2] PMDC annual report 2018-19
[3] The Economic Survey of Pakistan 2018-19
[4] Para 2.1.7.18 based on 6 cases only

awarded 47 licences. Foreign Direct Investment in the petroleum sector declined to US$100 million in 2018 from US$ 600 million in 2013.[5]

Petroluem Division received social welfare funds for Sindh amounting to Rs 7.4 billion during the year 2012-18. However, these funds were neither routed through public account of the federation nor of the province in violation of Constitution / accounting policies. [6]

Based on available data, in the last three years 2016-19, out of total 158 exploration licenses, 37 licenses were either surrendered by E&P companies or revoked by the Petroleum Division as a result of failure in exploration of petroleum products[7].

Unlawful extraction of oil and gas valuing Rs 18,476.279 million without obtaining lease[8] and unjustified flaring of natural gas valuing Rs 18,551.254 million despite energy crisis[9] and late installation of pipeline for transmission and distribution of gas were overlooked by the Division. The Division also did not recover Deemed Duty of Rs 24 billion unlawfully retained by M/s Byco Refinery[10].

Furthermore, both the gas utility companies claimed revenue requirements by not including all of their revenues ( Other operating income of Rs 18,039 million) and including exorbitant expenses on account of HR cost (Rs 26,211 million), unabated UFG losses and other transmission and distribution costs which caused extra burden on end consumers in the shape of high prices of gas[11].

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[5] Draft Performance Audit Report on Petroleum Policy, 2012

[6] Special Audit Report on Collection & Utilization of Social Welfare Obligations, Production Bonus and Marine Research Fee, 2012-18

[7] Petroleum Division data

[8] Para 2.2.6.2

[9] Para 2.2.6.70 & 2.1.7.10

[10] Para 2.1.7.4

[11] Para 2.5.6.44, 2.5.6.46, 2.5.6.48, 2.5.6.2, 2.6.6.2, 2.6.6.3 & 2.5.6.31

**Details of HR / T&D Cost and UFG Losses**

| | SNGPL | | SSGC | |
|---|---|---|---|---|
| | **2018-19** | **2017-18** | **2018-19** | **2017-18** |
| Total HR Cost (Rs in million) | 15,206 | 14,961 | 14,156 | 13,509 |
| Total T&D Cost (Rs in million) | 23,822 | 22,732 | 16,808 | 15,857 |
| Total UFG Losses (Rs in million) | 13,761 | 11,293 | 12,023 | 8,934 |
| Total Number of Consumers | 6,336,589 | 6,036,589 | 3,070,048 | 2,992,475 |
| Total Network in KM | 137,052 | 128,889 | 50,618 | 50,419 |
| Sales of NG (MMCF) | 435,187 | 460,874 | 365,354 | 371,774 |
| Sales of RLNG (MMCF) | 427,381 | 460,874 | | |

(Source: Final / Estimated Revenue Requirement, FY 2017-18 & 2018-19 finalized by OGRA)

From 2010-11 to 2018-19, HR cost of SNGPL increased by 106 % whereas number of consumers and network increased by 61% and 53% respectively. Sale of natural gas (volume-wise) has also shown a decreasing trend from 2011-12 to 2018-19. Furthermore, SNGPL allocated its total cost to natural gas consumers only instead of allocating it proportionately between its NG and RLNG business. It may be pertinent to mention, that the company earned income amounting to Rs 20,490 million and Rs 28,751 million on sale of RLNG during the FY 2017-18 and 2018-19[12].

Similarly, HR cost of SSGC is also on higher side as the company is handling half the number of consumers and network and less volume of sales as compared to SNGPL but its HR cost is nearly equal to SNGPL[13].

Due to lack of coordination, amongst other factors, between Power and Petroleum Divisions, Government failed to match imports of LNG with actual demand. Consequently, production from some local fields had to be stopped depriving general public of cheaper natural gas. Moreover, demand-supply gap

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[12] Para 2.5.6.2

[13] Para 2.6.6.3

of RLNG was also aggravating but Petroleum Division failed to identify new RLNG consumers[14].

Moreover, non-finalization of Gas Sales Purchase Agreements with GPPs / IPPs and Tripartite Agreements between PSO, SSGC and SNGPL, has put these PSEs to huge financial risk besides accumulating huge arrears of Rs 105,681 million (till September 2019)[15].

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[14] Para 2.1.7.32

[15] Para 2.1.7.32

# Chapter-1

# Public Financial Management

## 1.2 Issues related to AGPR, M/o Energy (Petroleum Division) and Geological Survey of Pakistan

Significant paras framed during Certification Audit of Non-Tax receipts of Ministry of Energy (Petroleum Division) and Geological Survey of Pakistan for FY 2018-19 are as under:

### *1.2.1 Non-existence of system for assessing due receipts*

According to Para 5(e) of System of Financial Control and Budgeting, 2006, in the matter of receipts pertaining to the Ministry / Division, Attached Departments and Subordinate Offices, the Principal Accounting Officer is expected to ensure that adequate machinery exists for due collection and bringing to account of all receipts of any kind connected with the functions of the Ministry / Division(s) / Departments and Subordinate Offices under his control.

During Certification Audit of receipts of Ministry of Energy (Petroleum Division), Islamabad for the FY 2018-19, it was observed that there was no mechanism in DG (Oil) for assessment and collection of receipts amounting to Rs 227,975.407 million. The management relied on the information provided by the companies concerned, and just maintained the following record:

i. Payment challans of windfall levy on crude oil;
ii. Payment challans of discount retained on crude oil; and
iii. Cash payment receipts.

The management only considered receipts which were revealed in the challans provided by the oil companies and did not itself evaluate the due receipts.

Audit is of the view that in the absence of mechanism for cross verification of receipts reported by oil companies, the management could not ensure deposit of due amounts which could lead to concealment of revenue.

The matter was reported to the PAO on November 06, 2019. The management stated that issue arose due to acute shortage of manpower. However, necessary arrangements were being made to strengthen the staff in order to avoid such situation in future.

The DAC in its meeting held on November 22, 2019 directed the management to take necessary steps for resolving the issue of staff shortage.

Audit recommends to develop adequate system for assessment of receipts by cross examination of production data received through LMKR at DG (PC).

[ML-1]

### *1.2.2 Non-opening of separate head of account for deposit of rent currently deposited under the head C-03808*

According to Para 5(d) of System of Financial Reporting and Budgeting 2006, each Principal Accounting Officer is required to make sure that the accounts of receipts are maintained properly and reconciled on monthly basis.

During Certification Audit of receipts of Ministry of Energy (Petroleum Division), Islamabad for the FY 2018-19, it was observed that receipts on account of rent received from E&P companies were deposited under the head "C03808- Receipts under the Mines and Oil-fields and Mineral". The said head of account was also used for miscellaneous receipts i.e. application fees, renewals fees and other receipts deposited by various organizations.

Audit is of the view that in the absence of a separate head of account, Audit could not verify the accuracy and completeness of receipts on account of rent received from E&P companies.

The matter was reported to the PAO on November 06, 2019. The DG (PC) in its reply stated that the matter had been taken up with CGA. In this regard, five reminders had already been issued but response from CGA was still awaited.

The DAC in its meeting held on November 22, 2019 directed the management to pursue the matter vigorously with CGA office

Audit recommends to pursue the matter with concerned authorities to introduce a separate head of account for rent received from E&P companies.

[ML-3]

### *1.2.3 Significant deviation in actual collection and budget estimates*

According to Para 13(iii) of System of Financial Control and Budgeting, 2006 the estimates of Tax Revenues, Non Tax Revenues and Capital Receipts shall first be coordinated and scrutinized by the Chief Finance and Accounts Officer and submitted with the approval of the Principal Accounting Officer to the Financial Adviser for approval. The estimates, as approved and verified by the Financial Adviser, shall be furnished to the Finance Division (Budget Wing) in accordance with the instructions contained in the Budget Call Circular.

During Certification Audit of receipts of Ministry of Energy (Petroleum Division), Islamabad for the FY 2018-19, it was observed that the Petroleum Division could not realize Gas Infrastructure Development Cess and Gas Development Surcharge as per the targets fixed in budget estimates and revised budget estimates. There was a significant difference between budget estimates and actual collection. The detail is as under:

(Rs in million)

| Head of Account | Budget Estimates | Revised Budget estimates | Actual collection | Variation | Percentage of actual collection to Revised Budget estimates |
|---|---|---|---|---|---|
| B03083-GIDC | 72,109 | 25,000 | 21,471 | 3,529 | 86% |
| B03084-GDS | 16,000 | 8,000 | 5,304 | 2,696 | 66% |

Audit is of the view that failure to prepare budget estimates on realistic basis led to non-achievement of budgeted targets by Petroleum Division.

The matter was reported to the PAO on November 06, 2019. The management stated that many of the consumers / sectors had challenged levy of cess in various courts of law. Thus collection of outstanding cess was subject to decision of the relevant court of law. Variation of GDS figures was due to circular debt.

The DAC in its meeting held on November 22, 2019 directed the management to pursue the court cases vigorously. Since the circular debt issue was under consideration with the Government of Pakistan, therefore, the DG (Gas) was directed to apprise Audit of the decision of the Federal Government.

Audit recommends to take necessary action for achievement of targets and to prepare budget estimates of receipts on realistic basis by considering all relevant factors.

[ML-6]

### *1.2.4 Misclassification of Petroleum Levy (B03085) in wrong head of Account Insurance (C02302) - Rs 5.908 million*

According to Article 170(1) of the Constitution of Islamic Republic of Pakistan, 1973 the accounts of the Federation and of the Provinces shall be kept in such form and in accordance with such principles and methods as the Auditor-General may, with the approval of the President, prescribe. According to Correction Slip No. 276 issued by office of Controller General of Accounts vide No. 33/ACI/1-10/Object B/2013 dated 18-02-2014, in pursuance of amendments made through Finance Act, 2012 as communicated by the Finance Division vide U.O No. 2(29)BR-1/2012-64 dated February 18, 2014, new detailed object head of account under Element "B-Tax Revenue" for Petroleum Levy is B03085.

During Certification Audit of receipts of Ministry of Energy (Petroleum Division), Islamabad for the FY 2018-19, it was observed that in the month of November, 2018 Petroleum Levy (Chart of Accounts Code B03085) amounting to Rs 5.908 million was deposited in the wrong head of account "Insurance" (Chart of Accounts Code C02302) and accounted as same by FTO and AGPR instead of its proper head of account B03085.

Audit is of the view that weak monitoring led to disclosure of inflated figures under C02302-"Insurance" and understatement of Petroleum Levy under B03085 in the Financial Statements of Federal Government" by Rs 5.908 million.

The matter was reported to the management on November 06, 2019. The management stated that corrections had been made. The DAC in its meeting held

on November 22, 2019 pended the para subject to verification of the correction entry.

Audit recommends that Petroleum Levy under head of account B03085 may be recorded and reconciled adequately and its figures be excluded from C02302-Insurance for true and fair presentation of accounts.

[ML-7]

### *1.2.5 Non-surrendering of savings – Rs 3.979 million*

According to Para 95 of GFR Vol-I, all anticipated savings should be surrendered to Government immediately they are foreseen but not later than 15 May of each year in any case, unless they are required to meet excesses under some other unit or units which are definitely foreseen at the time. However, savings accruing from funds provided after 15th May shall be surrendered to Government immediately they are foreseen but not later than 30th June of each year.

During Certification Audit of Appropriation Accounts of Geological Survey of Pakistan for the FY 2018-19, it was observed that savings of Rs 3.979 million were not surrendered under Grant No.030 (Current) and Grant No. 143 (Development). Detail is as under:

(Rs in million)

| Sr. No. | Grant No. | Final Grant | Actual Expenditure | Saving |
|---|---|---|---|---|
| 1. | 030 Current | 582.256 | 579.036 | **3.221** |
| 2. | 143 Development | 37.422 | 36.663 | **0.759** |
| | | | **Total** | **3.979** |

Audit observed that funds amounting to Rs 3.979 million were neither utilized nor surrendered in time by the GSP management.

Audit is of the view that the negligence of management resulted in failure to surrender the funds in time thus barring their utilization in deserving areas.

The matter was reported to the management on September 20, 2019. The management replied that an amount of Rs 3.221 million was saved in grant number 30 (current) which was 0.55% of final grant. Saving of

Rs 541.631 million occurred due to non-approval and non-release of funds of two (02) development projects i.e. Acquisition of 4 Drilling Rigs and Up-gradation of Chemical Lab. The final grant released was Rs 12.105 million against original development grant of Rs 573.175 million. The saving of Rs 0.759 million was nominal and 2.03% of the final budget.

The DAC in its meeting held on November 22, 2019 directed the management to get the record verified from audit within one week. However, no relevant record was produced to Audit for verification till finalization of the report.

Audit recommends compliance of DAC directives besides timely utilization of the allocated amount and surrendering of savings as required under the rules.

[MR-1.2/GSP]

### *1.2.6 Incomplete activation of SAP system in CAO office*

In terms of Section 5(d) of Controller General Ordinance 2001, the Controller General of Accounts has some responsibility for maintaining an environment which promotes adequate internal controls. Para 2.2.2.8 of Accounting Policy and Procedures Manual (APPM) states that within self-accounting entities the Principal Accounting Officer (PAO) has been delegated the authority by the Ministry of Finance for the accounting functions and for preparing accounts for submission to the Accountant Generals. The PAO has the authority to control the financial management of the entity under him / her within the limits prescribed by the Government. They also reconcile accounts with the AG/AGPR offices.

During Certification Audit of Appropriation Accounts of Geological Survey of Pakistan for the FY 2018-19, it was observed that SAP system module for making payments and preparation of Appropriation Accounts of GSP as well as all work flow statements was insufficient / incomplete. This resulted in partial activation of SAP system in CAO office.

Audit is of the view that lack of full module of SAP system could lead to loose financial control of CAO office.

The matter was reported to the PAO on September 20, 2019. The management stated that PIFRA Lab was established in CAO Office and it was working on post punching level for accounting / reporting of monthly / annual accounts of Geological Survey of Pakistan. Letter for installation of SAP at work flow level had been communicated to CGA office Islamabad but reply of the same was still awaited.

The DAC in its meeting held on November 22, 2019 directed the management to take up the case for full activation of SAP system with concerned authority.

Audit recommends implementation of DAC directives.

[MR-2.1/GSP]

# Chapter-2

# Ministry of Energy
# (Petroleum Division)

## 2.1 Ministry of Energy (Petroleum Division)

### 2.1.1 Introduction

The Ministry of Energy was created in August, 2017 after merging of Ministry of Petroleum and Natural Resources with the Power Division of the Ministry of Water and Power. The Ministry has two Divisions - Petroleum and Power, each being administered by a Federal Secretary. The Petroleum Division is responsible for coordinating the development of natural resources of energy and minerals in Pakistan. It aims to ensure, secure and make available sustainable energy supply for economic development as well as facilitate and promote exploration and production of oil, gas and mineral resources in the country. The Petroleum Division also collects a number of receipts of government of Pakistan through DG (PC), DG (Oil), DG (Gas) and DG (LGs). The DG (PC) deals with receipts of Royalty on oil and gas, Rent of lease / licensed area, Marine Research Fee and Production Bonus etc. The DG (Oil) deals with Petroleum Levy, Discount retained on local Crude Oil price and Windfall Levy on crude oil. The DG (Gas) deals with Gas Development Surcharge and Gas Infrastructure Development Cess whereas DG (LGs) deals with the Petroleum Levy on LPG.

### 2.1.2 Comments on Budget and Accounts

The comments on revenue collection and expenditure for the year 2018-19 as compared to the previous years are detailed below:

#### *2.1.2.1 Revenue Collection vs Targets (Non-Tax Receipts)*

A comparison of revised estimates and actual receipts of the Ministry for the FY 2018-19 is tabulated as follows:

(Rs in million)

| Nature of Receipt | Original Target 2018-19 | Revised Target 2018-19 | Collection 2018-19 | Difference from Revised Target | |
|---|---|---|---|---|---|
| | | | | Absolute | Percentage |
| 1 | 2 | 3 | 4 | 5 (4-3) | 6 |
| Petroleum Levy | 300,000 | 203,354 | 206,280 | 2,926 | 1 |
| Gas Development Surcharge | 16,000 | 8,000 | 5,304 | (2,696) | (34) |
| Royalty on Oil | 16,826 | 26,931 | 30,348 | 3,417 | 13 |
| Royalty on Gas | 36,516 | 51,225 | 57,434 | 6,209 | 12 |
| Discount Retained on Local Crude Oil | 10,000 | 14,029 | 13,932 | (97) | (1) |
| Windfall Levy | 5,000 | 6,974 | 7,793 | 819 | 12 |
| Gas Infrastructure Development Cess | 100,000 | 25,000 | 21,471 | (3,529) | (14) |
| Petroleum Levy on LPG | 2,000 | 3,736 | 3,743 | 7 | 0 |
| Others | 350 | 350 | 357 | 7 | 2 |
| **Total** | **486,692** | **339,599** | **346,662** | **7,063** | **2** |

*Explanatory Memorandum of Federal Receipts 2019-2020 and Financial Statements of Federal Government for the 2018-19*

The Ministry collected Rs 346,662 million against revised estimates of Rs 339,599 million for the FY 2018-19. It showed overall excess collection of Rs 7,063 million (2%) as compared with the revised estimates of the receipts. However, there was less collection of Rs 2,696 million of GDS (34%) and Rs 3,529 million of GIDC (14%) as compared with the revised estimates. The reasons for shortfall in collection of GDS and GIDC were circular debt and court cases.

### *2.1.2.2 Comparison of actual receipts between the FYs 2017-18 and 2018-19*

A comparison of actual receipts between the FYs 2017-18 and 2018-19 is tabulated as follows:

(Rs in million)

| Nature of Receipt | Collection | | Difference | |
|---|---|---|---|---|
| | FY: 2018-19 | FY: 2017-18 | Absolute | Percentage |
| 1 | 2 | 3 | 4 (2-3) | 5 |
| Petroleum Levy | 206,280 | 143,184 | 63,096 | 31 |
| Gas Development Surcharge | 5,304 | 24,212 | (18,908) | (356) |
| Royalty on Oil | 30,348 | 20,570 | 9,778 | 32 |
| Royalty on Gas | 57,434 | 38,620 | 18,814 | 33 |
| Discount Retained on Local | 13,932 | 9,110 | 4,822 | 35 |

| | | | | |
|---|---|---|---|---|
| Crude Oil Price | | | | |
| Windfall levy | 7,793 | 3,904 | 3,889 | 50 |
| Gas Infrastructure Development Cess | 21,471 | 15,176 | 6,295 | 29 |
| Petroleum Levy on LPG | 3,743 | 2,122 | 1,621 | 43 |
| Others | 357 | 319 | 38 | 11 |
| **Total** | **346,662** | **257,217** | **89,445** | **26** |

*Source: Financial Statements of the Federal Government for the FYs 2017-18 and 2018-19.*

The table shows increase in overall collection of Rs 89,445 million (26%) in receipts administered by the Ministry of Energy (Petroleum Division) during the FY 2018-19 as compared with receipts during FY 2017-18. However, Gas Development Surcharge has witnessed a decrease of 356%. The reasons for shortfall in collection of GDS were non-revision of prescribed price of natural gas by OGRA / Federal Government, circular debt and decline in production of indigenous natural gas production.

## 2.1.3 Audit Profile of Ministry of Energy (Petroleum Division)

Audit profile of Ministry of Energy (Petroleum Division) is as under:

(Rs in million)

| Sr. No. | Description | Total Nos. | Audited | Expenditure audited FY 2018-19 | Revenue / Receipts audited FY 2018-19 |
|---|---|---|---|---|---|
| 1 | Ministry of Energy (Petroleum Division) | 1 | 1 | 979.654 | 346,662.000 |
| 2 | Autonomous Bodies / PSEs etc. under the PAO as detailed in **Annex-3** | 16 | 13 | 2,419,386.595 | 2,792,658.845 |

## 2.1.4 Classified Summary of Audit Observations

Audit observations amounting to Rs 294,416.714 million were raised in this report during the current audit of Ministry of Energy (Petroleum Division). This amount also includes recoveries of Rs 257,680.828 million as pointed out by Audit. Summary of the audit observations classified by nature is as follows:

## 2.1.5 Overview of Audit Observations

(Rs in million)

| Sr. No. | Classification | Amount |
|---|---|---|
| 1 | Irregularities | - |
| A | Assessment and realization of GIDC and GDS | 138,045.635 |
| B | Assessment and realization of Deemed Duty | 24,186.155 |
| C | Assessment and realization of Petroleum Levy, Discount and Windfall Levy | 6,752.101 |
| D | Assessment and realization of Royalties on crude oil and gas | 8,066.272 |
| E | Licensing mechanism for exploration and production companies | 10,265.330 |
| F | HR / Employees related irregularities | 33.614 |
| 2 | Others | 107,067.607 |

## 2.1.6 Compliance of PAC Directives

The position of compliance with PAC directives in respect of Audit Reports is as under:

| Audit year | PAC directives | Compliance received | Compliance not received | Pending Paras | Compliance (%) |
|---|---|---|---|---|---|
| 1990-91 | 04 | 04 | - | - | 100 |
| 1991-92 | 01 | 01 | - | - | 100 |
| 1992-93 | 04 | 04 | - | - | 100 |
| 1993-94 | 01 | 01 | - | - | 100 |
| 1994-95 | 01 | 01 | - | - | 100 |
| 1995-96 | 01 | 01 | - | - | 100 |
| 1996-97 | 05 | 05 | - | - | 100 |
| 1997-98 | 03 | 03 | - | - | 100 |
| 1998-99 | 15 | 15 | - | - | 100 |
| 1999-00 | 04 | 04 | - | - | 100 |
| 2000-01 | 05 | - | 05 | 6.1,2.2,2.3,3.1,5.2, 7.17 | 0 |
| 2001-02 | 01 | - | 01 | 6.1 | 0 |
| 2002-03 | 01 | - | 01 | 6.1 | 0 |
| 2003-04 | 01 | 01 | - | - | 100 |
| 2004-05 | 03 | - | 03 | 13.1, 13.3, 13.4 | 0 |
| 2005-06 | 02 | 01 | 01 | 14.1(a&b) | 50 |
| 2006-07 | - | - | - | - | 0 |
| 2007-08 | 04 | - | 04 | 5.1(a), 5.1(c), 5.2, 5.3 | 0 |
| 2008-09 | 15 | 10 | 05 | 2.2(a,b&c), 1.1(a&b), 5.3, 4.1, 4.2, 2.1 | 67 |
| 2009-10 | 07 | - | 07 | 1.2, 1.4, 2.1, 2.2, 2.3, 2.4, 2.5 | 0 |

| | | | | | |
|---|---|---|---|---|---|
| 2010-11 | 15 | 08 | 07 | 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, 2.14 | 53 |
| 2011-12 | 27 | 05 | 22 | 2.4.19, 2.4.11, 2.4.8, 2.4.1, 2.4.2 & 2.4.3, 2.4.4, 2.4.5, 2.4.10, 2.4.14, 2.4.17, 2.4.18, 2.4.20, 2.4.21, 1.1.1, 1.1.3, 1.1.4, 2.4.7, 2.4.9, 2.4.13, 2.4.15, 2.4.6, 2.4.16. | 19 |
| 2013-14 | 38 | 08 | 30 | 1.1.1, 1.1.4, 2.4.1, 2.4.2, 2.4.3, 2.4.4, 2.4.5, 2.4.6, 2.4.7, 2.4.8, 2.4.9, 2.4.10, 2.4.11, 2.4.12, 2.4.14, 2.4.15, 2.4.16, 2.4.17, 2.4.18, 2.4.19, 2.4.20, 2.4.21, 2.4.22, 2.4.23, 2.4.24, 2.4.25, 2.4.29, 2.4.30, 2.4.31, 2.4.34 | 21 |
| 2014-15 | 24 | 0 | 24 | 1.1.1,1.1.2,1.1.3,1.1.4. 2.4.1,2.4.2,2.4.3,2.4.4, 2.4.5,2.4.6,2.4.7,2.4.8, 2.4.9,2.4.10,2.4.11,2.4 .12,2.4.13,2.4.14,2.4.1 5,2.4.16,2.4.17,2.4.18, 2.4.19,2.4.20 | - |
| 2015-16 | No PAC held | - | - | | - |
| 2016-17 | 26 | 10 | 16 | 2.4.2,2.4.4,2.4.3,2.4.5, 2.4.6,2.4.8,2.4.11,2.4. 12,2.4.13,2.4.17,2.4.1 9,2.4.20,2.4.21,2.4.22, 1.1.4,2.4.16 | 38 |
| 2017-18 | 30 | 04 | 26 | 1.1.1,1.1.3,1.1.4,2.4.1, 2.4.2,2.4.3,2.4.4,2.4.5, 2.4.6,2.4.7.2.4.8.2.4.1 0,2.4.12,2.4.13,2.4.15, 2.4.16,2.4.17,2.4.18,2. 4.19,2.4.20,2.4.21,2.4. 22,2.4.23,2.4.24,2.4.2 5,2.4.26 | 13 |
| **Total** | **238** | **86** | **152** | | **36%** |

The table showed lacklustre compliance of PAC's directives in recent years. The division, therefore, needs to take the issue of compliance of PAC's directives seriously to improve the current position.

## 2.1.7 Audit Paras

**Assessment and realization of GIDC and GDS**

***2.1.7.1 Non-realization of Gas Infrastructure Development Cess – Rs 83,294.792 million***

According to Section 3(1) of the Gas Infrastructure Development Cess Act, 2015, the Cess shall be levied and charged by the Federal Government from gas consumers or the company at the rates as provided in second schedule to this Act. The gas company shall be responsible for billing of Cess to gas consumers, its collection and onward payment to the Federal Government in the manner as prescribed.

During audit of the Petroleum Division for the FY 2018-19, it was observed that DG (Gas), Islamabad did not recover Gas Infrastructure Development Cess (GIDC) from E&P / gas companies in respect of gas sold to fertilizer / power companies and other consumers as detailed under:

(Rs in million)

| Sr. No. | Name of Company M/s | Amount |
|---|---|---|
| 1 | MPCL | 34,827.102 |
| 2 | SNGPL | 32,843.968 |
| 3 | PPL | 4,075.407 |
| 4 | OGDCL | 722.768 |
| 5 | SSGC | 11,548.315 |
| **Total** | | **84,017.595** |

This resulted in non-realization of GIDC amounting to Rs 84,017.595 million during FY 2018-19.

Audit is of the view that weak monitoring by DG (Gas) resulted in non-realization of GIDC.

The matter was reported to the PAO in September & November, 2019. Management in its reply dated December 30, 2019 stated that out of Rs 722.768 million pertaining to M/s OGDCL, an amount of Rs 383.978 million had been recovered while an amount of Rs 338.790 million had already been deposited earlier. The remaining amount of Rs 83,294.792 million pertaining to other E&P

/ gas utility companies was outstanding due to court stay orders and circular debt issue.

The DAC in its meeting held on November 26, 2019 directed M/s SNGPL to provide the consumer wise list and status of recovery and get it verified from audit within a week. Further, the DAC in its meeting held on January 17, 2020 directed the management to pursue the court cases and recoveries vigorously. No further progress was reported till finalization of the report.

Audit recommends compliance with DAC directives and to pursue court cases vigorously to recover outstanding GIDC.

[DP Nos. 743-SSGC, 740-SSGC, 418-SSGC, 403-SSGC, 560-GIDC & 302-SNGPL]

### *2.1.7.2 Inadmissible adjustment of Gas Development Surcharge – Rs 34,168.003 million*

According to Section 3 of the Natural Gas Development Surcharge Ordinance 1967, every company shall collect and pay to the Federal Government a development surcharge equal to differential margin, in respect of gas sold by it.

During audit of the Petroleum Division for the FY 2018-19, it was observed that DG (Gas), Islamabad did not recover Gas Development Surcharge from M/s SNGPL amounting to Rs 29,468.057 million and M/s MPCL amounting to Rs 4,699.946 million. The shortfall in payment of GDS occurred due to inadmissible adjustments of negative GDS by MPCL of feed stock against GDS payable on fuel stock. In the case of SNGPL, adjustment was being made on account of different categories of consumers. Audit contended that no such adjustment was allowed under the GDS Ordinance. This inadmissible adjustment resulted in short realization of GDS amounting to Rs 34,168.003 million.

Audit is of the view that negligence on the part of management resulted in short realization of GDS due to unlawful adjustment.

The matter was reported to the PAO in September, 2019. Managment in its reply dated December 30, 2019 stated that FRR of SNGPL for the FY 2018-19 was yet to be finalized by OGRA, therefore, final GDS liability of the

company would be determined at that point. In the case of MPCL the wellhead / prescribed price was higher than the sale price, therefore, MPCL recovered prescribed price from the total sale of gas for feed and fuel stock. The reply is not tenable because no such adjustment is admissible under the GDS Ordinance.

In DAC meeting held on January 17, 2020 management explained that efforts were underway to seek advice from the Law Division for inserting required provisions in the GDS Ordinance. Further, it was also explained that sufficient provisions in respect of GDS collection had been promulgated in OGRA Ordinance, 2002 and according to its repeal clause, GDS Ordinance and Rules had been repealed to the extent repugnant to the provisions of OGRA Ordinance, 2002. Audit contented that OGRA Ordinance, 2002 does not contain any provision for repealing the GDS Ordinance and in case of MPCL, OGRA Ordinance is not applicable. Hence, no adjustment of GDS is allowed to MPCL. DAC directed the management to get stated position verified from audit within a week. No further progress was reported till finalization of the report.

Audit recommends to recover the amount of GDS from MPCL and ensure discontinuance of the adjustment of GDS besides expediting the matter regarding amendments in GDS Ordinance.

[DP Nos. 561 & 562-GDS]

### *2.1.7.3 Non-realization of Gas Development Surcharge - Rs 20,582.84 million*

According to Section 3 of the Natural Gas Development Surcharge Ordinance 1967, every company shall collect and pay to the Federal Government a development surcharge equal to differential margin, in respect of gas sold by it.

During audit of the Petroleum Division for the FY 2018-19, it was observed that DG (Gas), Islamabad did not realize Gas Development Surcharge from M/s MPCL amounting to Rs 6,971.246 million and M/s PPL amounting to Rs 13,611.594 million This resulted in non-realization of GDS amounting to Rs 20,582.84 million. Further, as per amended Natural Gas Development Surcharge (GDS) Rules, 1967 , GDS was payable by the company within one month of the receipts from the consumer but no time limit was prescribed for

payment by the consumer. The time limit for payment of GDS could not be left at the discretion of gas buying companies.

Audit is of the view that weak monitoring by DG (Gas) resulted in non-realization of GDS amounting to Rs 20,582.84 million during the FY 2018-19.

The matter was reported to the PAO in September, 2019. Managment in its reply dated December 30, 2019 stated that this was an issue of circular debt and would be resolved with the settlement of circular debt.

The DAC in its meeting held on January 17, 2020 directed the management to make efforts for recovery and get it verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to recover outstanding GDS amount and settle the issue of circular debt in collaboration with Power Division.

[DP No. 637-GDS]

**Assessment and realization of Deemed Duty**

***2.1.7.4 Irregular retention of deemed duty by M/s Byco - Rs 24,186.155 million***

According to Finance Act 2002-03, the minimum guaranteed rate of return of 10% to National Refinery Limited, Pakistan Refinery Limited and Attock Refinery Limited was abolished and they were allowed to compete in the market through tariff protection formula, whereby they were allowed to retain import duty @ 10% applicable on import of HSD and 5% import duty ad valorum plus 1% surcharge applicable on import of kerosene oil, light diesel oil and JP-4.

During audit of Petroleum Division for the FY 2018-19, it was observed that the DG (Oil) did not initiate any action against M/s Byco which retained deemed duty on sale of petroleum products even though no incentive was extended to M/s Byco in Finance Act, and Petroleum Policy 1997. This resulted in un-authorized retention of deemed duty of Rs 24,186.155 million since 2002-03.

Audit is of the view that weak monitoring by DG(Oil) resulted in irregular retention of deemed duty of Rs 24,186.155 million.

The matter was reported to the PAO in November, 2019. Management in its reply dated December 30, 2019 stated that M/s Byco being a refurbished refinery could not be treated as a new refinery which was established in 2004 under Petroleum Policy 1997. Further, in 2002, M/s Byco was assured by DG(Oil) that they would avail deemed duty. The reply is not tenable because treating refinery as old on the basis of its second hand plant is not plausible as M/s Byco was incorporated in 2004 under Petroleum Policy 1997, which did not contain any provision of deemed duty. Further, DG (Oil) did not have the authority to allow refinery the benefit of deemed duty in violation of Finance Act.

The DAC in its meeting held on January 21, 2020 directed the management to get the relevant record regarding approval of ECC or competent forum verified from Audit within a week. No further progress was reported till finalization of the report.

Audit recommends PAO to probe the matter for irregular retention and fix responsibility against persons at fault for causing loss to the Government besides recovery with interest.

[DP No. 717-DG (Oil)]

**Assessment and realization of Petroleum, Discount and Windfall Levy**

***2.1.7.5 Non-realization of Petroleum Levy - Rs 6,419.3 million***

According to Section 3 of the Petroleum Products (Petroleum Levy) Ordinance 1961, as amended vide Petroleum Products Development Levy (Amendment) Ordinance 2009, every licensee shall pay a Petroleum Levy at such rates and in such manner as the Federal Government may by rules prescribe, on the quantity of petroleum products produced by the refinery or purchased by company for sale. According to section 3-A and notifications issued from time to time, Petroleum Levy is to be collected at rates notified by

the DG (Oil) / OGRA in the same manner as excise duty is collected under the Federal Excise Act, 2005.

During audit of Petroleum Division for the FY 2018-19, it was observed that the DG (Oil) did not recover petroleum levy from M/s BYCO Petroleum Pakistan Limited (BPPL) amounting to Rs 6,419.3 million and M/s Shell Pakistan Limited amounting to Rs 4.264 million on account of various sales through retail outlets or direct sales of petroleum products. This resulted in non-realization of Government revenue amounting to Rs 6,423.56 million during FY 2018-19.

Audit is of the view that weak internal controls resulted in non-recovery of Petroleum Levy amounting to Rs 6,423.56 million.

The matter was reported to the PAO in November, 2019. Management replied that an amount of Rs 4.264 million had been recovered and an amount of Rs 6,419.3 million was under recovery.

The DAC in its meeting held on January 17, 2020 directed the management to get the recovery verified from the FTO and share with Audit within a week. The DAC also directed to expedite the recovery of the outstanding amount. No further progress was reported till finalization of the report.

Audit recommends to recover outstanding amount of Petroleum Levy with interest besides fixing responsibility for causing loss to the government.

[DP Nos. 406/K, 407/K, 408/K, 409/K , 410/K, 411/K & 412/K -DG Oil]

### *2.1.7.6 Short-realization of Petroleum Levy due to application of incorrect rate by OMCs - Rs 192.023 million*

According to Section 3 of the Petroleum Products (Petroleum Levy) Ordinance 1961, Petroleum Levy is to be collected in respect of imported products in the same manner as import duty was collected under the Customs Act, 1969. Further, the Ministry of Law, Justice and Human Rights Islamabad, clarified vide letter F No. 279/2011-Law dated June 16, 2015 that for bonded products, the date applicable for charging the Petroleum Levy would be the date

of actual removal of the products. Moreover, the rate of petroleum levy for imported Motor Spirit (MS) of various RONs was fixed by DG(Oil) from time to time.

During audit of Petroleum Division for the FY 2018-19, it was observed that the DG (Oil) did not recover Petroleum Levy from four OMCs who made short payment of Petroleum Levy by Rs 192.023 million due to clearance of "imported High Speed Diesel" from bonded warehouses at lower rates. The OMCs either applied rates prevailing on GD filing date or on cash payment date rather than rate applicable on date of actual removal of petroleum products. This resulted in short-realization of Petroleum Levy aggregating to Rs 192.023 million.

Audit is of the view that weak monitoring by DG(Oil) led to short-realization of Petroleum Levy amounting to Rs 192.023 million.

The matter was reported to the PAO in December, 2019. Management in its reply dated December 30, 2019 stated that it was requested to FBR to charge Levy as per opinion of Law Division, however, the opinion of Law Division was not implemented in some cases.

The DAC in its meeting held on January 17, 2020 directed the management to take up the issue of implementation of Law Division's advice through Petroleum Division with FBR for early resolution of the issue within 15 days and share the outcome with Audit. No further progress was reported till finalization of report.

Audit recommends to recover outstanding amount of Petroleum Levy with interest besides fixing responsibility for causing loss to the Government.

[DP No. 636-DG Oil]

### *2.1.7.7 Non-realization of Petroleum Levy and mark up - Rs 133.092 million*

According to Rule 9(1) of Petroleum Product (Development Surcharge), Rules 1967, every licensee shall deposit Petroleum Levy payable by it in respect of sale of LPG produced in Pakistan from its production facilities during the calendar month within seven days of the close of that month. Further, according

to Rule 9(3), a mark-up at the rate of four percent above the three months KIBOR shall be payable on any amount due under Sub-Rule (1), if the said amount is not paid within seven days of the close of that month.

During audit of the Petroleum Division for the FY 2018-19, it was observed that DG (LGs) did not recover Petroleum Levy from M/s SSGC on LPG uplifted by M/s JJVL. This resulted in non-realization of Petroleum Levy of Rs 124.237 million along with mark up of Rs 8.855 million aggregating to Rs 133.092 million.

Audit is of the view that weak monitoring by DG(LGs) resulted in non-realization of petroleum levy on LPG and mark up amounting to Rs 133.092 million.

The matter was reported to the PAO in December, 2019. Management in its reply dated December 19, 2019 stated that M/s JJVL had challenged the imposition of PL on LPG in Honourable Lahore High Court since May 2019.

The DAC in its meeting held on January 17, 2020 directed the management to pursue the court case vigorously. No further progress was reported till finalization of the report.

Audit recommends to pursue the court case vigorously for early recovery of government dues.

[DP Nos. 643 & 674-LGs]

***2.1.7.8 Non-realization of late payment surcharge on belated payment of Petroleum Levy due to non-framing of rules***

According to Sections 3 and 3-A of the Petroleum Products (Petroleum Levy) Ordinance, 1961 as amended vide Petroleum Products (Petroleum Levy) (Amendment) Act, 2011 every company, refinery and licensee was obliged to pay a Petroleum Levy to the Federal Government at such rates and in such manner as might be notified by the Federal Government in the official gazette from time to time. Further, the Ministry of Law, Justice and Human Rights Islamabad, clarified vide letter dated June 16, 2015 that for bonded products,

the date applicable for charging the Petroleum Levy would be the date of actual removal of the products.

During audit of the Petroleum Division for the FY 2018-19, it was observed that DG (Oil) did not recover Petroleum Levy from five OMCs and refineries who either failed to pay or less paid Petroleum Levy on HSD. Further, certain OMCs and refineries who made belated payment of Petroleum Levy on sales of HSD. However, late payment surcharge was not levied on them resulting in loss of revenue to the national exchequer. Audit noted that apparently no provision for penalty in such cases was available in petroleum policies or rules, therefore, no penalty for late or non-payment was imposed on these OMCs. Moreover, DG (Oil) took no step for inclusion of the same in rules and `policies, thus neglecting his duties as the regulator.

Audit is of the view that poor performance of regulatory functions by DG (Oil) resulted in non-framing of rules leading to non-realization of petroleum levy and non-imposition of LPS.

The matter was reported to the PAO in December, 2019. Management in its reply dated December 30, 2019 stated that amendments were being made in the Petroleum Products (Petroleum Levy) Ordinance 1961, for inserting the requisite provision of late payment surcharge.

The DAC in its meeting held on January 21, 2020 directed the management to expedite the finalization of LPS rules within six months and proceed further under the rules. No further progress was reported till finalization of the report.

Audit recommends to establish legal framework for late payment surcharge on non/short or delayed realization of Petroleum Levy.

[DP No. 791–DG(Oil)]

***2.1.7.9 Late realization of Petroleum Levy on withdrawal of imported HSD - Rs 7.686 million***

According to Sections 3 and 3-A of the Petroleum Products (Petroleum Levy) Ordinance, 1961 as amended vide Petroleum Products (Petroleum Levy)

(Amendment) Act, 2011 every company, refinery and licensee was obliged to pay a Petroleum Levy to the Federal Government at such rates and in such manner as might be notified by the Federal Government in the official Gazette from time to time. Further, the Ministry of Law, Justice and Human Rights Islamabad, clarified vide letter F No. 279/2011-Law dated June 16, 2015 that for bonded products, the date applicable for charging the Petroleum Levy would be the date of actual removal of the products.

During audit of Petroleum Division for the FY 2018-19, it was observed that the DG (Oil) did not recover Petroleum Levy from M/s OTO (Pvt.) Ltd amounting to Rs 162.128 million and M/s HASCOL (Pvt.) Ltd amounting to Rs 7.685 million. These OMCs withdrew Rs 9.396 million liters of HSD and submitted goods declaration accordingly but failed to deposit the Petroleum Levy despite lapse of considerable period from 44 to 220 days. This resulted in non-realization of Petroleum Levy amounting to Rs 169.813 million. These OMCs had already sold the petroleum products to the general consumers which meant that the government dues were collected by the OMCs and same were being utilized for the promotion of their own business at the cost of Government exchequer.

Audit is of the view that poor monitoring by DG (Oil) resulted in non-realization of Petroleum Levy amounting to Rs 169.813 million.

The matter was reported to the PAO in August, 2019. Management in its reply dated December 30, 2019 stated that Rs 162.128 million had been recovered from M/s HASCOL and recovery of balance amount of Rs 7.686 million was being pursued. Audit holds that no action had yet been taken for withholding of Petroleum Levy for 34 to 74 days by M/s HASCOL.

The DAC in its meeting held on January 17, 2020 directed the management to expedite the recovery of the balance amount from M/s OTO. DAC also directed to put in place the mechanism to control the delay in payments. DAC settled the para to the extent of Rs 162.128 million deposited by M/s HASCOL. No further progress was reported till finalization of the report.

Audit recommends DG (Oil) to recover outstanding amount from concerned OMCs besides fixing responsibility for causing loss to the Government.

[DP No. 667-DG Oil]

**Assessment and realization of Royalties on crude oil and gas**

***2.1.7.10 Loss due to unlawful flaring of gas - Rs 6,420.054 million***

Under Rule 20(1) of Pakistan Petroleum (Exploration and Production) Rules 1986, the Operator shall not flare Natural Gas but shall use it commercially or for recycling. If natural gas is not so used or not planned to be so used, it shall be made available to the government free of cost. According to Section I of Utilization of Flare Gas (FG) Guidelines, 2016 "flare gas utilization plan should be an integral part of the Field Development Plan. All existing lease holders shall submit flare gas utilization plan within 120 days of the publication of these guidelines". According to Section M of Guidelines "a committee under chairmanship of Secretary / Additional Secretary Ministry of Energy (Petroleum Division) will be setup to oversee the implementation of these guidelines and the committee shall meet on a quarterly basis".

During audit of the Petroleum Division for the FY 2018-19, it was observed that DG (PC) failed to monitor flaring of gas by E&P companies. Audit noticed that 5 E&P companies flared gas ranging from 0.11% to 47% of gas extracted from 41 fields without approval of competent authority. This resulted in loss of 8,584 MMBTU gas valuing Rs 6,420.054 million inclusive royalty of Rs 802.507 million. Further, no field development plan for flare gas utilization was submitted by these E&P companies to DG(PC). Moreover, no meeting of the committee to oversee the implementation of flaring guidelines was held since 2016 which encouraged the flaring of gas by E&P companies.

Audit is of the view that lack of proper monitoring and non-implementation of flare policy by DG (PC) resulted in loss of Rs 6,420.054 million.

The matter was reported to the PAO in December, 2019. Managment in its reply dated January 16, 2020 stated that companies had been advised to submit clarification on the observation raised by the Audit.

In DAC meeting held on January 21, 2020 the management explained that flaring of gas was done on account of unavoidable operational requirements/ technical issues. The DAC directed the management to get the above stance

verified from Audit and also share the minutes of the meeting of committee established under Guidelines. No further progress was reported till finalization of the report.

Audit recommends DG(PC) to justify non-initiation of action against E&P companies for unlawful flaring of gas besides fixing responsibility on persons at fault.

[DP No. 713-DGPC]

### *2.1.7.11 Non-realization of royalty and fine on late payment of royalty – Rs 344.944 million*

According to the Regulation of Mines and Oil fields and Mineral Development (Government Control) Act, 1948 read with Rules 28, 36 and 35 of Pakistan Petroleum (Exploration and Production) Rules 1949, 1986 and 2001, holder of a lease shall pay a Royalty at the rate of 12.5% of the wellhead value of the petroleum produced and saved within two months, 10 days and 45 days respectively of the expiry of the calendar month in question. Prior to E&P Rules of 2001, no penalty for delayed payment was in the rules. However, in Pakistan Petroleum (Exploration & Production) Rules, 2001, a fine at rate of Libor plus 2% shall be imposed.

During audit of the Petroleum Division for the FY 2018-19, it was observed that DG (PC) did not recover royalty on crude oil and natural gas from five E & P companies in 9 Blocks besides fine on late payment of royalty from an E & P company in 2 blocks under E&P Rules, 2001. This resulted in non-realization of royalty and subsequent fine amounting to Rs 702.892 million.

Audit is of the view that poor monitoring by DG(PC) resulted in non-realization of royalty and fine thereof amounting to Rs 702.892 million.

The matter was reported to the PAO in November, 2019. Managment in its reply dated December 23, 2019 stated that an amount of Rs 148.456 million had been recovered while an amount of Rs 209.492 million had already been deposited and recovery of Rs 344.944 million was under recovery.

The DAC in its meeting held on January 21, 2020 directed the management to expedite the recovery of balance amount and get the status of recovery verified from audit within 15 days. No further progress was reported till finalization of the report.

Audit recommends DG(PC) to recover outstanding amount besides fixing responsibility on the persons at fault.

[DP Nos. 567 & 673-DGPC]

### *2.1.7.12 Loss of royalty due to non-revocation of field – Rs 435.325 million*

According to Rule 43 of Pakistan Petroleum (Exploration and Production) Rules, 1986 the lease may be revoked if regular commercial production has not commenced within five years from the grant of the lease. According to DG(PC)'s memo No. 8(4)(Tullow-Sara-west) 2001-Exp dated November 26, 2002, M/s Tullow was required to bring field into production latest by December 31, 2004.

During audit of the Petroleum Division for the FY 2018-19, it was observed that DG (PC) granted D&P lease of Sara West field to Tullow/OGDCL JV on June 08, 2001. Initially, the JV was required to start production within one year of the grant of lease i.e. by 01-09-2002 but the JV failed to develop the field within prescribed time. Later on, DG (PC) amended the lease agreement allowing the JV to start production by December 31, 2004. The JV, however, failed to start production by the due date again but DG (PC) did not revoke the lease as required under E&P Rules. On September 18, 2006, OGDCL became the sole owner of the field. However, OGDCL also failed to start production from the field thus resulting in non-production of 30.5 BCF of gas amounting to US $ 22.6 million and non-recovery of royalty of US$ 2.75 million. Hence, failure of DG (PC) to revoke the lease resulted in loss of royalty of Rs 435.325 million (US$ 2.75 million @ US$ 1= Rs 158.30).

Audit is of the view that slackness in performance of regulatory functions by DG (PC) resulted in non-revocation of lease causing loss of Rs 435.325 million on account of royalty.

The matter was reported to the PAO in August, 2019. Management in its reply dated December 23, 2019 stated that Sara West field needed heavy investment for development. The lease was not revoked and state owned company was allowed to develop the said field as early as possible. The reply is not tenable as according to economics of the field, the company would earn US$ 22.6 million by sale of gas and would pay royalty of US$ 2.75 million.

In DAC meeting held on January 21, 2020 management explained that the company could not start production from the lease due to technical issues despite efforts by the field operators. However, the lease was not revoked to give opportunity to operator to examine other options. The lease would expire in June, 2021 and further renewal would be considered only after submission of a viable production plan. The DAC directed the management to examine the issue of non-revocation of lease and take it to the competent forum for its regularization. No further progress was reported till finalization of the report.

Audit recommends DG (PC) to justify non-revocation of lease besides fixing responsibility on the persons at fault.

[DP No. 711-DGPC]

### *2.1.7.13 Less payment of royalty due to incorrect reporting of production by E&P companies - Rs 334.44 million*

According to the Rule 36 of the Pakistan Petroleum (Exploration and Production) Rules, 1986, the licensee or holder of a lease shall pay a royalty at the rate of 12.5% of the well head value of the Petroleum produced and saved.

During audit of the Petroleum Division for the FY 2018-19, it was observed that M/s ENI reported less production of gas by 3,993,931 MMBTU in Bhit and Badhra fields than reported by LMKR. In another case, M/s MPCL reported less production of crude oil by 12,637 barrels and 1,891,952 MMBTU of gas in Mari, Zarghun South, Sajwal and Ghuri block as compared to production reported by LMKR. Hence, these companies paid royalty on less quantity of oil and gas, thus causing less payment of royalty amounting to Rs 344.44 million.

Audit is of the view that weak monitoring by DG (PC) resulted in less payment of royalty of Rs 334.44 million.

The matter was reported to the PAO in November, 2019. Managment in its reply dated December 23, 2019 stated that M/s MPCL reported volume of oil/gas on the basis of production and royalty was being paid on actual supplies. Further, actual BTUs of gas extracted by M/s ENI from Bhit and Bhadra were 835 and 910 respectively instead of 940 BTU on the basis of which Audit calculated royalty. The reply is not tenable as there is a significant difference of 1,891,952 MMBTU of gas and 12,637 barrels of oil between production reported by MPCL and LMKR. Furthermore, Audit made calculation of royalty due from M/s ENI on the basis of BTUs reported by DG(PC) in CMS i.e. 940 BTU.

The DAC in its meeting held on January 21, 2020 directed the management to get the relevant record verified from audit within 15 days. No further progress was reported till finalization of the report.

Audit recommends DG(PC) to recover outstanding royalty besides fixing responsibility on the persons at fault and ensure accuracy of LMKR data.

[DP No. 397-DGPC]

#### *2.1.7.14 Short-realization of sales proceeds and non-payment of royalty - Rs 310.512 million*

According to Clause 3.1a(1) of Crude Oil Sale Purchase Agreement (COSA) purchase price for a barrel of Nashpa & Mela crude oil for each week shall be calculated at arithmetic average spot price for Oman blend & Dubai crude, as published in Platts Oil gram/ Platts Global Alert under caption feeder crudes spot F.O.B source for the Wednesday or any other day immediately preceding the delivery period, "plus or minus as applicable, premium or discount as announced by Saudi ARAMCO for deliveries to Asian markets or destination". Further, according to the Regulation of Mines and Oilfields and Mineral Development (Government Control) Act, 1948 read with Rule 36 of the Pakistan Petroleum (Exploration and Production) Rules, 1986, holder of a lease shall pay Royalty at the rate of 12.5 per cent of the wellhead value of the petroleum produced and saved.

During audit of Director General (Oil) Islamabad for the FY 2018-19, it was observed that M/s OGDCL raised sales invoices from 2007-2012 as per price structure defined in Article X to Petroleum Concession Agreement i.e. after inclusion of premium in the oil price. However, M/s OGDCL excluded premium on oil clause from price structure while raising invoices from May 2012 to February 2018 without approval of DG (PC) / DG (Oil). This resulted in short-realization of sale proceeds amounting to Rs 2,484.098 million and royalty amounting to Rs 310.512 million.

Audit is of the view that poor financial management resulted in short realization of sales proceeds of crude oil and short payment of royalty.

The matter was reported to the PAO on December, 2019. Management in its reply dated December 30, 2019 stated that issue was sub-judice in Islamabad High Court.

The DAC in its meeting held on January 21, 2020 directed the management of OGDCL to get the record regarding payment of royalty verified by audit within a week. DAC further directed to pursue the court case vigorously. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for violation of PCA / COSA without approval of authority besides pursuing the case in court of law vigorously.

[DP No. 876-DG(Oil)]

### *2.1.7.15 Short payment of royalty due to unlawful amortization and irregular adjustment of RPC - Rs 135.70 million*

According to Clause 10.04(1) of Pakistan Petroleum Royalty Guidelines, 2006, Production equipment, down hole, wellhead, protection, controlling, servicing, testing and other production facilities or equipment relating to the production function are non-allowable costs. Further, according to Clause 6.6, a quarterly adjustment will be incorporated for the differential between budgeted and actual RPC and royalty payment will be revised and paid.

During audit of the Petroleum Division for the FY 2018-19, it was observed that M/s MOL capitalized wellhead surface material, wellhead surface facilities and surface well testing amounting to Rs 891.461 million for amortizations in TAL block. However, amortization of these facilities and equipment was not allowed under the rule, thus resulting in short payment of royalty of Rs 5.572 million. Further, in another case, M/s MPCL short paid royalty from Zarghon South lease for 2018-19 on the plea that it had not deducted gathering, treatment, dehydration, compression liquefaction and transportation charges in calculation of RPCs during the period from 2014-15 to 2017-18. The company deducted Rs 129.598 million from royalty payable for 2018-19 after adjustment of RPC of above-mentioned period. The adjustment, however, was irregular as it could only be made within 3 months after the royalty was paid. Hence, the excess claim on amortization and irregular adjustment of RPCs by the E&P companies resulted in short-realization of royalty amount to Rs 135.70 million.

Audit is of the view that slackness of DG (PC) in performance of regulatory functions resulted in excess claim of amortization and irregular adjustment of RPCs thus resulting in short payment of royalty amounting to Rs 135.70 million.

The matter was reported to the PAO in December, 2019. Management in its reply dated December 23, 2019 stated that MPCL had not deducted gathering, treatment, dehydration, compression liquefaction and transportation charges in calculation of RPCs during the period from 2014-15 to 2017-18 thus excess payment of royalty was adjusted from current payments. Further, in case of M/s MOL, the cost of pipes in question was part of flow lines and gathering system, hence adjustment of RPC was admissible under the rules. The reply is not tenable because adjustment of past RPC could only be adjusted within three months therefore adjustment by M/s MPCL after lapse of more than 4 years was irregular. Furthermore, in case of M/s MOL, Audit did not include capital cost of flow lines for calculation of royalty which was not addressed in the reply.

The DAC in its meeting held on January 21, 2020 directed the management to get the relevant record of M/s MOL verified from Audit

within 15 days and to recover the amount from M/s MPCL at the earliest. No further progress was reported till finalization of the report.

Audit recommends DG (PC) to recover royalty at the earliest besides fixing responsibility on the persons at fault.

[DP Nos. 712 & 794-DGPC]

### *2.1.7.16 Non-realization of royalty on supply of free gas - Rs 85.297 million*

According to the Rule 37(2) of Pakistan Petroleum (Exploration and Production) Rules, 1949 the lessee shall pay a royalty on natural gas at the rate of 12.5 percent on wellhead value if sold by lessee or utilized for any other purpose than the production of Petroleum. There was no provision of free gas facility in any policy / rule.

During audit of the Petroleum Division for the FY 2018-19, it was observed that DG (PC) did not realize royalty from M/s OGDCL on supply of free gas to localities of Loti and Pirkoh leases. This resulted in non-realization of royalty amounting to Rs 85.297 million.

Audit is of the view that weak monitoring by the DG (PC) resulted in non-realization of royalty amounting to Rs 85.297 million on natural gas.

The matter was reported to the PAO in November, 2019. Management in its reply dated December 23, 2019 stated that supply was being made as per directives of GoP. DG (Gas) office had been approached to provide directives in this regard that would be provided shortly.

The DAC in its meeting held on January 17, 2020 directed the management to provide the required information regarding waiver of royalty for verification. No further progress was reported till finalization of the report.

Audit recommends to recover the outstanding amount of royalty.

[DP No. 396-DGPC]

**Licensing mechanism for exploration and production companies**

***2.1.7.17 Non-transparent grant of lease in violation of E&P Rules***

According to Rule 29 of Pakistan Petroleum (Exploration and Production) Rules 1986, the size of any development area shall not exceed an area of more than 125 sq. kilometers save in cases where special exemption is granted by the Government.

During audit of the Petroleum Division for the FY 2018-19, it was observed that DG (PC) granted Zamzama lease to M/s BHP Petroleum Pakistan over an area of 535.79 sq. kilometers on April 02, 2002. Later on, the operatorship of the lease was transferred to Orient Petroleum Private Limited (M/s OPPL). Audit contended that an exploration and production lease over 125 sq. kms. could be awarded only where special exemption was granted by the Government whereas no special exemption / justification was found in this case. DG(PC), however, took no step to reduce the area under the lease and even allowed transfer of lease without any objection.

Audit is of the view that slackness of DG (PC) in performance of regularity functions resulted in non-transparent grant of E&P lease of excess area.

The matter was reported to the PAO in December, 2019. Management in its reply dated January 09, 2020 stated that concession containing the discovery area covered 1,033.22 sq. kms accordingly, lease, covering an area of 536 sq. kms, was granted. Reply of the department is not tenable as lease area was granted half of discovery area. Moreover, special exemption was not produced to Audit.

The DAC in its meeting held on January 21, 2020 directed the management to get its stance verified from audit within 15 days. No further progress was reported till finalization of the report.

Audit recommends to justify granting of lease in violation of rules besides fixing responsibility on the persons at fault.

[DP No. 792-DGPC]

*2.1.7.18 Undue extension of licenses and non-recovery of government dues - Rs 5,203.038 million*

According to Section 26 of Pakistan Petroleum (Exploration and Production) Rules, 2001, where upon the surrender or the expiry of a license, the obligations pursuant to rules 20 or 22 have not been fulfilled, the holder shall either pay to the Government such sum by way of liquidated damages which correspond to the minimum expenditure of un-discharged work obligations within a period of thirty days from the surrender or expiry of the license.

During audit of the Petroleum Division for the FY 2018-19, it was observed that DG (PC) granted five exploration licenses to M/s PEL and one exploration license to M/s Hycarbex. Both the companies failed to perform minimum work commitment. DG(PC), however, granted repeated extensions to these companies despite their inability to perform their obligations. The detail is as below:

(Rs in million)

| Sr. No. | Name of E&P Co. M/s | Block Name | Grant Date | 1st Renewal Date | 2nd Renewal Date | Expiry of Last Renewal | Date of Showc-ause | Revoca-tion Date | Govt. Dues Recove-rable) |
|---|---|---|---|---|---|---|---|---|---|
| 1 | PEL | Sanghar East* | 25.09.05 | 09.09.10 | 25.09.12 | 24.09.13 | 25.02.16 | 02.04.19 | 1,365.821 |
| 2 | | New Larkana* | 03.06.05 | 03.06.10 | 02.12.12 | 01.12.15 | 25.02.16 | 02.04.19 | 844.338 |
| 3 | | Koli* | 25.09.07 | 25.09.10 | 25.09.12 | 24.09.13 | 23.02.16 | 03.04.19 | 1,074.346 |
| 4 | | Jahangara** | 27.04.05 | 27.04.09 | 27.04.10 | 26.04.14 | 06.05.16 | 02.04.19 | 176.522 |
| 5 | | Mirpur Khas ** | 25.09.07 | 25.09.10 | 25.09.12 | 24.09.13 | 25.02.16 | 25.03.19 | 889.508 |
| 6 | Hyca-rbex | Yasin ** | 11.08.01 | 12.12.05 | - | 31.12.18 | - | 10.12.18 | 852.503 |
| | | | | | | | | **Total** | **5,203.038** |

* No work commitment done by the E&P company.
** Incomplete work commitments done by the E&P companies

Audit observed that DG (PC) delayed issuance of show cause notices for up to 2 years after expiry of last renewal of blocks and revoked the lease 3 years after issuance of show cause notices. Later on, DG (PC) issued revocation notices to these companies and advised them to pay government dues amounting to Rs 5,203.038 million on account of liquidity damages, rent, social welfare and training fund. The amount calculated by DG (PC) did not include penalty on

non-fulfillment of work commitments. However, the amount could not be recovered as the companies obtained stay orders from the court. Hence, unjustified extension of licenses resulted in non-recovery of accumulated Government dues of Rs 5,203.038 million.

Audit is of the view that undue favour by DG (PC) resulted in undue extension to companies causing non-recovery of Rs 5,203.038 million.

The matter was reported to the PAO in December, 2019. Management replied that extensions were granted in view of prevailing circumstances and under applicable rules. It was further replied that no penalty clause was available in the rules for non-fulfillment of minimum work commitment within stipulated time frame and there was no provision to transfer block to 2nd highest bidder in Petroleum Policy. The reply is not tenable as it was the responsibility of DG (PC) to ensure fulfillment of work commitments and to make case for inclusion of penalty and transfer of block clause in E&P Rules.

In DAC meeting held on January 21, 2020 the Management explained that Pakistan Onshore E&P Rules, 2013 had been amended to provide that extension beyond two years would be allowed with the approval of ECC. DAC directed the management to pursue the court cases vigorously. No further progress was reported till finalization of the report.

Audit recommends to justify undue extension to E&P companies besides pursuance of court cases for recovery of outstanding amount. Audit further recommends to revise E&P rules for inclusion of provisions of penalty and transfer of block for non-performance of work commitment.

[DP No. 874-DGPC]

### *2.1.7.19 Irregular waiver of fine due to delay in start of production - Rs 4,232.800 million*

According to Clause 3 of D&P lease agreement for Sara West Field dated August 02, 2001 "the proposed development plan based on production from single well will be implemented within one year bringing Sara Field on production, failing which the Government will terminate the lease granted to

Tullow / OGDCL joint venture”. Further, according to DG (PC)’s memo No. 8(4)(Tullow-Sara-west) 2001-Exp dated November 26, 2002, M/s Tullow was allowed to bring field into production latest by December 31, 2004, failing which Tullow would have to pay a fine of US$ 5000 per day to the Government for any delay beyond January 01, 2005.

During audit of the Petroleum Division for the FY 2018-19, it was observed that DG (PC) granted D&P lease of Sara West field to Tullow / OGDCL JV on June 08, 2001. The JV was required to start production by September 01, 2002 which was later on revised to December 31, 2004. In case of failure to start production the JV was bound to pay a fine of US$ 5000 per day, however, no fine was imposed. On September 18, 2006, 100% ownership was transferred to OGDCL, which requested for waiver of penalty but it was not accepted by the authority. Later on, DG (PC), in a meeting held on April 23, 2009, agreed to accept US$ 3.13 million as fine till September 18, 2006 i.e. date of acquisition of field by OGDCL with a waiver for remaining period till start of commercial production. Moreover, instead of recovering the fine, DG (PC) allowed OGDCL to adjust the penalty against Social Welfare and CSR. Hence, the irregular waiver of penalty resulted in loss of Rs 4,232.800 million (US$ 26.455 million @ US$1= Rs 160) from 2005 to 2019.

Audit is of the view that poor performance of DG (PC) in performance of its regulatory functions resulted in irregular waiver of penalty amounting to Rs 4,232.800 million.

The matter was reported to the PAO in August, 2019. Management in its reply dated December 23, 2019 stated that waiver granted to OGDCL was in accordance with applicable Rules / PCA. The reply is not tenable because DG(PC) himself stipulated penalty clause in the lease agreement on the basis of which the lease was granted to M/s OGDCL. Further, DG(PC) could not grant waiver without approval of competent authority.

The DAC in its meeting held on January 21, 2020 directed the management either to recover the outstanding fine or to get it regularized from competent authority. No further progress was reported till finalization of the report.

Audit recommends to justify waiver of fine and recover the same immediately besides conduct inquiry to fix responsibility for waiver of fine without approval of ECC.

[DP No. 671-DGPC]

### *2.1.7.20 Non-recovery of signature bonus on extension of lease - Rs 829.492 million*

According to Section 32 of Pakistan Petroleum (Exploration and Production) Rules, 1986, the lease period shall not exceed twenty-five years in respect of the on-shore fields. Upon application from the holder, the Government may renew the lease for a period, not exceeding five years. According to Clause 4.1.10(1) read with Clause 4.1.10(4) of Petroleum Policy, 2012, DG PC can renew the lease for another five years term against payment of an amount equivalent to 15% of the wellhead value to the Government otherwise DG PC will invite bids using the call for bids one year before the end of the lease period from pre-qualified companies for an additional ten years. These terms shall also apply to leases granted under Pakistan Petroleum (Exploration & Production) Rules of 1986 and 2001.

During audit of the Petroleum Division for the FY 2018-19, it was observed that DG (PC) granted Sono lease to M/s OGDCL in July, 1989 under E&P Rules, 1986 which completed its 30 years period on July 22, 2019. As per the Rules, DG (PC) was required to either extend the lease for another 5 years upon request of the E&P company and on payment of amount of 15% of the wellhead value as signature bonus or invite bids one year before expiry of lease. DG (PC), however, did not exercise either of options which resulted in loss of Rs 829.492 million (US$ 5.24 million @ US$= Rs 158.30) on account of signature bonus. DG(PC) came to know about expiry of lease only after M/s OGDCL requested for extension of 7 years in February, 2019 as DG(PC) advised M/s OGDCL to approach Federal Government for re-grant of lease after the said date.

Audit is of the view that lack of vigilance in performance of regulatory functions resulted in non-recovery of signature bonus amounting to Rs 829.492 million.

The matter was reported to the PAO in December, 2019. Managment in its reply dated December 23, 2019 stated that field was producing 660.17 barrels of oil hence additional 15% well head value would make the field uneconomical. The reply was not tenable, as signature bonus was applicable after the expiry of lease period regardless of reservoir. Further, DG (PC) was required to recover signature bonus or initiate bidding of lease one year before expiry of lease i.e. July 2018.

The DAC in its meeting held on January 21, 2020 directed the management to expedite case regarding for re-grant of lease with OGDCL and share outcome with Audit within two months. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility against the persons at fault for non-initiating lease re-grant process besides recovery of signature bonus with interest.

[DP No. 793-DGPC]

**HR / Employees related irregularities**

***2.1.7.21 Non-recovery of advances given to GSP employees - Rs 21.339 million***

According to Clause 4.10.8.1 and 7.3.1.1 of Accounting Policies Procedures Manual, permanent advances are granted to officers who are required to make payments before funds are made available to them for minor contingent expenditures and accounts of each year will be formally closed on 30$^{th}$ June each year. Further, according to Clause 11.8 of Manual of Travelling Allowance, advance should be adjusted through TA bill immediately on return to headquarters or on 30$^{th}$ June whichever is earlier.

During audit of GSP for the FY 2018-19, it was observed that a sum of Rs 15.776 million was disbursed as contingent advance to the officers / official of GSP as well as Bahlol Coal Project and Uthal Metallic Minerals Project. However, the officers / official neither deposited the bills nor adjusted / deposited the amount of contingent advance upto 30$^{th}$ June of the financial year. Further, an amount of Rs 5.563 million was disbursed to the employees as TA

advance but the employees neither performed any journey nor deposited the amount in the treasury upto 30th June. This resulted in non-recovery of contingent advance as well as TA advance of Rs 21.339 million.

Audit is of the view that weak financial controls resulted in non-recovery of advances of Rs 21.339 million.

The matter was reported to the PAO in November, 2019. Managment in its reply ensured that all the advances drawn by officers / officials would be adjusted at priority after completion of their field work. Audit contended that advances should had been adjusted at the close of the financial year.

The DAC in its meeting held on January 24, 2020 directed the management to get the relevant record verified from Audit within three months. No further progress was reported till finalization of the report.

Audit recommends to recover outstanding amount of contingent advance besides improving financial controls.

[DP Nos. 581, 582 & 583-GSP]

### *2.1.7.22 Misappropriation on account of re-imbursement of medical charges - Rs 12.275 million*

According to Para 10 of General Financial Rules, every public officer authorized to incur expenditure from the public funds should observe high standards of financial propriety and is expected to exercise the same vigilance in respect of expenditure from public money, as a person of ordinary prudence would exercise in respect of expenditure of his own money.

During audit of Petroleum Division for the FY 2018-19, it was observed that the Division reimbursed an amount of £142,201 to a Section Officer on account of medical charges. Out of this amount, £61,376 were paid in excess through duplicate claims than admissible, as total amount claimed was £80,825 instead of £142,201. This resulted in excess payment of medical charges of £61,376 (equivalent to Rs 12.275 million approx.).

Audit was of the view that negligence of the management resulted in misappropriation on account of re-imbursement of medical charges of Rs 12.275 million.

The matter was reported to the PAO in November, 2019 but no reply was received.

The DAC in its meeting held on January 21, 2020 directed the management to submit reply of the para and get the position verified from Audit within 15 days. No further progress was reported till finalization of the report.

Audit recommends to recover excess payment besides initiating disciplinary proceeding against the officer(s) / official(s) responsible.

[DP No. 370-MoE-Exp]

**Others**

***2.1.7.23 Non-utilization of training fund - Rs 385.977 million***

According to Section 3 of Guidelines for Utilization of Training Obligation 2009, 50% of the fund shall be earmarked by the operator for imparting training to their Pakistani national employees. 25% of the total training fund obligation under the PCAs will be utilized by the Ministry of Petroleum & Natural Resources through DG (PC) as per policy. 25% of the total training fund obligation under the PCAs will be utilized by the DGPC on the internship/ training of local inhabitants of the area of operations. The training fund shall be maintained by the DG (PC).

During audit of the Petroleum Division for the FY 2018-19, it was observed that DG (PC) did not arrange any training/ internship during the period as required by the guidelines. This resulted in non-utilization of training fund amounting to Rs 385.977 million.

Audit is of the view that weak internal controls resulted in non-utilization of training fund amounting to Rs 385.977 million.

The matter was reported to the PAO in November, 2019. Management in its reply dated December 23, 2019 stated that directorate had been facing acute

shortage of manpower and separate department would be required. Audit contended that there was ostensibly no need of new department and DG (PC) may devise a mechanism for efficient utilization of training funds. No further progress was reported till finalization of the report.

Audit recommends to ensure proper utilization of training funds as per guidelines.

[DP No. 566-DGPC]

### *2.1.7.24 Non-realization of license & lease rent from E&P Companies - Rs 67.570 million*

According to Pakistan Petroleum (Exploration and Production) Rules 1949, 1986, 2001, 2009, 2013 and Pakistan Offshore Petroleum (Exploration and Production) Rules, 2003, the licensee and lessee shall pay to the Government annually in advance rent, at rates prescribed therein.

During audit of the Petroleum Division for the FY 2018-19, it was observed that in 39 licenses and 46 leases, the rent was neither demanded by DG (PC) nor paid by the concerned E&P Companies. This resulted in non-realization of rent amounting to Rs 133.773 million.

Audit is of the view that lake of monitoring by the DG (PC) resulted into non-realization of rent.

The matter was reported to the PAO in November, 2019. Management in its reply dated December 23, 2019 replied that an amount of Rs 30.114 million had been recovered while an amount of Rs 36.090 million had already been deposited and recovery of Rs 49.494 million was in progress. Further, it was also reported that leases / licenses of Rs 18.076 million were declared force majeure or been terminated. However, no documentary evidence was produced in this regard.

The DAC in its meeting held on January 21, 2020 directed the management to get the relevant record verified from Audit and expedite efforts for the recovery of the remaining amount within one month. No further progress was reported till finalization of the report.

Audit recommends to recover the outstanding rent and verify force majeure or terminated leases/licenses besides fixing responsibility against the persons at fault.

[DP Nos. 394, 395 & 563-DGPC]

***2.1.7.25 Non / Short deposit of Social Welfare Obligation - Rs 112.19 million***

According to Annexure VII of the Pakistan Petroleum (Exploration and Production) Policy, 1994 and other policies introduced from time to time read with Clause 4 of revised Social Welfare Guidelines, 2017, E & P Companies will open a joint bank account with DCOs/DCs concerned and will deposit the social welfare contribution fund within one month of signing of PCA and subsequently by 31$^{st}$January each year.

During audit of the Petroleum Division for the FY 2018-19, it was observed that DG (PC) failed to monitor eleven E&P Companies who either did not deposit or short deposited social welfare obligation in 35 blocks. This resulted in non / short realization of social welfare obligation amounting to Rs 125.713 million (US$ 802,763 @ US$ 1 = Rs 156.60).

Audit is of the view that improper monitoring by DG (PC) resulted in non/short realization of social welfare obligation amounting to Rs 125.713 million.

The matter was reported to the PAO in November, 2019. Management in its reply dated December 23, 2019 replied that an amount of Rs 7.345 million had been recovered while an amount of Rs 6.178 million had already been deposited and recovery of Rs 70.699 million was in progress. Further, it was also reported that an amount of Rs 37.977 million was pending due to being sub-judice and cases of pending extensions of Rs 3.514 million were in progress. No further progress was reported till finalization of the report.

Audit recommends to recover the outstanding amount besides improving monitoring mechanism to avoid such instances in future.

[DP No. 393-DGPC]

### *2.1.7.26 Non / Short deposit of training fund by E&P companies – Rs 29.79 million*

According to Section 3 of guidelines for utilization of training obligation 2009, 50% of the fund shall be earmarked by the operator for imparting training to their Pakistani national employees. 25% of the total training fund obligation under the PCAs will be utilized by the Ministry of Petroleum & Natural Resources through DG (PC) as per policy. 25% of the total training fund obligation under the PCAs will be utilized by the DG (PC) on the internship / training of local inhabitants of the area of operations (district-wise). The training fund shall be maintained by the DG (PC). The unspent amount of training obligation shall be deposited in DG (PC)'s training account as provided in the PCAs.

During audit of the Petroleum Division for the FY 2018-19, it was observed that DG (PC) failed to recover training funds from eight E&P Companies in 35 cases who either did not deposit or short deposited training obligation. This resulted in non/ short realization of training funds amounting to Rs 71.757 million (US$ 457,928 @ US$ 1 = Rs 156.70) during the year.

Audit is of the view that weak monitoring by the DG (PC) resulted in non / short realization of training fund amounting to Rs 71.757 million.

The matter was reported to the PAO in November, 2019. Management in its reply dated December 23, 2019 replied that an amount of Rs 41.848 million had been recovered while an amount of Rs 0.119 million had been regularized due to exchange rate difference and recovery of Rs 29.79 million was in progress. No further progress was reported till finalization of the report.

Audit recommends to recover outstanding amount besides improving monitoring mechanism to avoid such instances in future.

[DP No. 399-DGPC]

### *2.1.7.27 Non- recovery of rent from PSEs accommodated at Petroleum House Islamabad – Rs 49.945 million*

According to Ministry of Housing and Works O.M No.F.12(65)/2011-Policy dated 27th March 2017 regarding revision of hiring rates for office accommodation at Islamabad, Rawalpindi, Karachi, Lahore, Peshawar and Quetta, rental rate of commercial buildings situated at Islamabad/Rawalpindi at locations other than Blue area, Super/Jinnah Super Market, F-8 Markaz, F-10 Markaz and E-7, was fixed for basement @ Rs. 40 per Sq. Ft and for other floors @ Rs.60 per Sq. ft.

During audit of Petroleum Division for the FY 2018-19, it was observed that the Division did not recover outstanding rent from certain commercial / public sector organizations accommodated in the Petroleum House, Islamabad detailed as under:

(Rs in million)

| Sr. No. | Name of Organization | Monthly Rent (Rs) | Period | Total |
|---|---|---|---|---|
| 1 | LMKR | 122,438<br>183,654 | 01.11.2015 to 16.03.2017<br>17.03.2017 to 31.03.2019 | 6.522 |
| 2 | ISGSL | 734,628<br>367,314 | 01.10.2018 to 31.03.2019<br>17.03.2017 to 30.09.2018 | 14.509 |
| 3 | GHPL | 367,314<br>734,628 | 01.01.2018 to 31.03.2019<br>17.03.2017 to 31.12.2017 | 20.019 |
| 4 | PLTL | 122,438<br>183,657 | 01.07.2016 to 31.03.2017<br>01.04.2017 to 31.03.2019 | 5.589 |
| 5 | PLL | 367,314 | 01.10.2018 to 31.03.2019 | 2.204 |
| 6 | SML | 183,657 | 01.10.2018 to 31.03.2019 | 1.102 |
| | | | **Total** | **49.945** |

This resulted in non-recovery of rent amounting to Rs 49.945 million.

Audit is of the view that negligence by the management resulted in non-recovery of rent amounting to Rs 49.945 million.

The matter was reported to the PAO in November, 2019 but no reply was received till finalization of the report.

Audit recommends to justify non-recovery of outstanding rent besides fixing responsibility against the persons at fault.

[DP No. 335-MoE-Exp]

### *2.1.7.28 Irregular payment through cash instead of crossed cheques - Rs 13.740 million*

According to Rules 147 to 167 of Treasury Rules, all payments are to be made through crossed cheques drawn in favour of local bodies, firms, private persons or government servants.

During audit of Petroleum Division for the FY 2018-19, it was observed that certain expenditure was incurred from the budget allocated for contingencies & honorarium through cash payments. The payments were required to be made to the suppliers, service providers etc. through crossed cheques. Further, no proper receipts of acknowledgment duly signed on revenue stamps of these disbursements were available in the record. This resulted in irregular payments of Rs 13.740 million through cash.

Audit was of the view that weak internal controls resulted in non-observance of prescribed procedure and this may result misuse of public money.

The matter was reported to the PAO in November, 2019. Managment in its reply dated November 26, 2019 stated that payments were made through cash instead of cheques and documents for verification of Rs 4.307 million would be provided to Audit and honorarium amounting to Rs 8.309 million was paid to staff during last week of June, 2019. Audit contended that payment was to be made through cheques as per rule.

The DAC in its meeting held on November 26, 2019 directed the Petroleum Division to get the record verified from Audit within a week. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for making payment in cash.

[DP No. 338-MoE-Exp]

### *2.1.7.29 Loss due to non-handing over the operations of CNG stations to the successful bidder - Rs 54.066 million*

According to Para 6 of Hydrocarbon Development Institute of Paksitan (HDIP) Act 2006, the Board of Governors shall have the power to supervise,

control, direct and regulate the affairs of the Institute. In compliance of Para 4.4 of 25th meeting of HDIP's Board of Governors dated August 07, 2018 read with decision No. 21/7, all CNG stations located at Islamabad, Lahore, Peshawar and Quetta were to be leased out.

During audit of HDIP, Islamabad for the FY 2018-19, it was observed that the management let out CNG station to M/s Attock Petroleum Ltd Rawalpindi for rent of Rs 4.505 million per month along with call deposit of Rs 40 million. However, despite lapse of more than one year, the management failed to hand over the CNG stations to the successful bidder. This resulted in loss of Rs 54.066 million on account of rent of CNG stations.

Audit is of the view that weak internal controls caused loss of Rs 54.066 million due to non-handing over the operations of CNG stations to the successful bidder.

The matter was reported to the PAO in December, 2019 but no reply was received till finalization of the report.

Audit recommends to fix responsibility for delay in handing over the CNG station to the successful bidder.

[DP No. 642-HDIP-Isd]

***2.1.7.30 Unjustified expenditure on CNG stations - Rs 36.212 million***

According to Para 10 of General Financial Rules, every public officer authorized to incur expenditure from the public funds should observe high standards of financial propriety and is expected to exercise the same vigilance in respect of expenditure from public money, as a person of ordinary prudence would exercise in respect of expenditure of his own money.

During audit of HDIP, Islamabad for the FY 2018-19, it was observed that CNG station located at Lahore was non-operative since February, 2015 and the management did not take any action to start the operations. This resulted in unjustified expenditure of Rs 27.155 million on account of salaries and allied expenses without earning any sales revenue. Further, HDIP CNG Station, Quetta was sustaining losses for the last three consecutive years from 2015 to 2018 of

Rs 9.057 million (Revenue Rs 54.562 million & expenditure 63.619 million) and the management did not take sufficient steps to make the CNG station profitable or close it down. This resulted loss of Rs 36.212 million at both CNG stations.

Audit is of the view that negligence of management resulted in non-operation/improper management of CNG stations causing loss of Rs 36.212 million.

The matter was reported to the PAO in November and December, 2019. The management of HDIP Regional office Quetta replied that equipment installed at CNG station was obsolete and replacement cost of the equipment was very high. Further, it was replied that operational hours was 12 in a day due to electricity load shedding and Iranian smuggled gasoline was easily available at Quetta therefore customer shifted to gasoline. The reply is not tenable as the management should make CNG stations sustainable through public private patnership. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for poor management besides taking steps to make the CNG station at Quetta profitable and to operationalize the CNG station at Lahore.

[DP Nos. 569-HDIP-Isd & 710-HDIP-Quetta]

### *2.1.7.31 Irregular receipt of payments through cash instead of bank deposit – Rs 21.367 million*

According to Para 5.2.2.10 of Accounting Policy and Procedure Manual, public monies received in cash, cheque or any other form of payment will not be accepted by Government entities at their own offices, unless specifically authorised by the Government. In cases where receipt at government offices is permitted, the Principal Accounting Officer of the concerned entity must ensure proper control and record of receipts is maintained and public monies are promptly deposited into the Government's bank account.

During audit of HDIP, Islamabad for the FY 2017-18, it was observed that the Petroleum Testing Centre, Quetta, was receiving payments for testing of petroleum products through cash rather than through bank deposits despite the

fact that it had a separate collection account in NBP. This resulted in irregular receipt of testing fee of Rs 21.367 million.

Audit is of the view that weak internal controls resulted in irregular receipt of Rs 21.367 million through cash instead of bank deposits.

The matter was reported to the PAO in November, 2019 but no reply was received till finalization of the report.

Audit recommends to ensure that receipt of fee is deposited through bank instead of cash receipt.

[DP No. 415-HDIP-Quetta]

### *2.1.7.32 Mismanagement in LNG / RLNG business and accumulation of huge arrears - Rs 105,681 million*

MPNR (Policy Wing) vide No. NG(II)-16(I)/15-RLNG-IPP-Vol-II dated 23.06.2015 conveyed the decision of ECC to OGRA / Gas Utilities / PSO for implementation vide Case No ECC-52/07/2015 dated 09.04.2015 and Case-62/08/2015 dated April 23, 2015 regarding the Allocation and Pricing of RLNG and related matters.

During audit of Ministry of Energy (Petroleum Division), DG (Gas) and SNGPL for the FY 2018-19, it was observed that import of LNG was started in 2015 by PSO under long term (15 years) contract with take or pay clause and SNGPL / SSGC management started purchasing RLNG from PSO for onward sales to GPPs / IPPs and other industrial consumers. Following inconsistencies / inefficiencies were observed in the process of LNG import and its purchase / sales by SSGC / SNGPL:

i) As per decision of ECC vide Case No ECC-52/07/2015 dated April 09, 2015 and Case-62/08/2015 dated April 23, 2015, import of LNG was started through PSO and the RLNG price was to be determined on similar lines as that of Petroleum Products Pricing under The Petroleum Products (Petroleum Levy) Ordinance, 1961 (SRO No 408(I)/2015 dated May 07, 2015). Due to non-completion of LNG Pipelines Project, swapping arrangement was introduced between SSGC and SNGPL under which

SSGC would utilize the RLNG in its franchise area on indigenous gas tariff and deliver equal volume of indigenous gas to SNGPL for sale in its franchise area on RLNG price. This swapping arrangement was causing many problems like line pack issues by increasing high pressure on pipelines of both the gas utility companies, and forced intake of RLNG by SSGC for sale in its franchise area at domestic tariff etc.

ii) As per ECC decision vide case no ECC-/122/13/22012 dated October 03, 2012, RLNG was required to be supplied to public / private sector bulk consumers under firm contracts with take or pay clause. But no firm back to back contracts were finalized with take or pay clause with IPPs and contracts with GPPs were also finalized only upto 66% take or pay instead of 100% under TA-2 agreements.

Contrary to its earlier decision, ECC decided vide Case No ECC-52/07/2015 dated April 09, 2015 and Case-62/08/2015 dated May 23, 2015, RLNG supply to IPPs would be on as and when available basis without any take or pay.

This inconsistency in decision making resulted in non-finalization of contracts (GSPA) with IPPs and hence signing of TA-1 among PSO, SSGC and SNGPL was still pending putting the whole RLNG sale/ purchase business at risk and exposing all the three PSEs to possible financial insolvency in the absence of assurance for payments on contracted off-takes. Thus SNGPL failed to make payments to PSO to the tune of Rs 65,400 million (as on September 16, 2019). However, presently PSO is charging demurrage charges to SNGPL for delay in picking the RLNG volume from the Terminal / Floating Storage and Regasification Unit (FSRU).

iii) SNGPL was purchasing RLNG from PLL without executing any GSPA during 2017-18 and 2018-19 and also sold the purchased RLNG to different consumers including IPPs without finalizing any GSPA. Hence, sale and purchase of RLNG from PLL to GPPs, IPPs and other consumers was irregular. Resultantly, SNGPL failed to make payments to PLL timely therefore, receivables of PLL from SNGPL were piled up to Rs 40,281 million (as on Setember 16, 2019).

iv) RLNG demand is also volatile because the Ministry of Energy (both the Petroleum / Power Division) failed to carry out realistic demand and supply assessment. Due to acute decline in the demand of RLNG by IPPs even in summer season, Power Sector / IPPs failed to purchase RLNG off-takes as per their demand. With the addition of coal in merit order (issued by NTDC on periodic basis) prior to RLNG for fuel consumption by IPPs, demand of RLNG would further reduce in near future.

v) Due to inconsistent demand of RLNG and to facilitate the loading of incoming LNG cargo, Ministry of Energy (Petroleum Division) had to stop production in gas fields of indigenous gas (like Mela & Nashpa) in August, 2019 and again in September, 2019 in order to curtail pressure on line pack of SNGPL. This not only deprived the consumers of indigenous cheaper sources of gas but also put the strategic assets of the country i.e. pipeline of SNGPL at risk of rupture due to uncontrollable pressure.

vi) According to Para 6.2(e) of LNG Policy, 2011, LNG storage facility may be developed by the LNG Developer / LNG Terminal Operator. Gas Storage may be allowed at a tariff determined by OGRA. No such LNG storage capacity had since been developed by the either LNG importers or Terminal Operators i.e. PSO / PLL / EETPL / SSGC / PLTL / PGPC etc. despite the fact that all these parties were receiving their tolling charges / cost of services / administrative margin on regular basis.

Audit is of the view that Ministry of Energy (Petroleum Division) and SNGPL failed to sensitize the Federal Government regarding inconsistencies in governing RLNG business which resulted in mismanagement in the shape of ever aggravating demand supply gap of RLNG, endangering the pipeline of gas companies due to line pack issues, jeopardizing their financial solvency due to non-payment in the absence of back to back agreements on "Take or Pay" and accumulation of huge RLNG related circular debt.

The matter was reported to the Ministry and Management on September 27, 2019 but no reply was received so far.

Audit recommends that to:

i) Explain reasons for the aforesaid mismanagement / inconsistencies in decision making in the light of summaries submitted to ECC;
ii) Operationalize the RLNG Pipelines to discontinue the swapping arrangement so that prices of RLNG and line pack issues could be reduced;
iii) Take stern steps to finalize the TA-1 between SNGPL, SSGC and PSO and back to back agreements with IPPs and other industrial consumers and to finalize / execute the GSPA with PLL as well;
iv) Formulate necessary measures to stabilize the demand and supply of RLNG by identifying the potential consumers in the country;
v) Develop RLNG storage facility expeditiously to ensure stability in RLNG business in case of low demand and for utilization in times of shortage to avoid gas crisis; and
vi) Strengthen the Policy Wing of Petroleum Division to ensure their invaluable input in policy / decision making by the ECC.

[DP No. 505]

### *2.1.7.33 Non-conducting of Performance Evaluation of BoD Members and its Committees Members*

According to Rule 8 of Public Sector Companies (Corporate Governance) Rules, 2013, the performance evaluation of members of the Board including the chairman and the chief executive shall be undertaken annually by the Government for which the Government shall enter into performance contract with each member of the Board at the time of his appointment.

During audit of Ministry of Energy (Petroleum Division) for the FY 2018-19, it was observed that the division did not initiate any performance evaluation of BoD members and its committees members of the PSEs working under its administrative control. However, in SNGPL as per agenda item 5856 of 510$^{th}$ BoD meeting dated July 20, 2018, BoD accorded approval to carry out performance evaluation of the BoD members and its Committees under self-assessment mode from Pakistan Institute of Corporate Governance (PICG).

Audit is of the view that performance evaluation of members of Board should have been undertaken by the Government and not by PICG on self-assessment mode.

The matter was reported to the Petroleum Division on October 30, 2019 but no reply had been received so far.

Audit recommends to justify non evaluation of performance of members of BoD in compliance of corporate governance rules.

[DP No. 508]

### *2.1.7.34 Loss due to export of condensate at discounted rates - Rs 615.750 million*

As per Article 30.1 of Model Petroleum Concession Agreement, the operator shall conduct all exploration, exploitation, drilling, development, and production operations in accordance with good international oilfield practices and the principles and standards as laid down in the rules. Consistent with this requirement, the operator shall endeavour to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of Petroleum.

During audit of OGDCL Islamabad for the FY 2018-19, it was observed that DG (Oil) allocated condensate from TAL block to ARL where OGDCL was JV partner. Due to up-gradation of its plant, ARL could not receive condensate. Resultantly, MOL, JV operator, had to make the alternative arrangement for sale of condensate through its export at discounted price. Thus, approval for export of condensate of 580,958 BBL was obtained from DG (Oil) on December 31, 2018. Consequently, MOL floated tender for export of condensate and M/s Trafigura was found the lowest bidder with discounted of Brent minus US$ 10.85/BBL at the Brent price for 2018. The JV partners OGDCL and PPL communicated approvals to MOL. However, later on withdrew their approval on the ground that NRL had offered Brent price minus US$ 4.475 per barrel. Further, M/s UEPL was also exporting condensate to M/s Trafigura but at a much lower Brent rate of US$ 3.5. The matter was taken up with DG (Oil) who had categorically stated that sale of condensate to local refineries at a discounted price was violation of the PCA. Later on, the JV partners gave their consent for export of condensate

@ Brent price minus US$ 10.85 / BBL to M/s Trafigura for 2018. This resulted in loss of Rs 615.775 million (US$ 280,958*10.85% = US$ 3,048,394 (Rs 426.775 million plus transportation charges for Rs 189.00 million) to the public exchequer.

Audit is of the view that OGDCL could re-allocate condensate among local refineries which was not done. The weak monitoring by DG (Oil) resulted in loss of Rs 615.775 million due to export of condensate at discounted rates.

The matter was reported to the PAO on November 15, 2019 but no reply was received till finalization of the report.

The DAC in its meeting held on January 30, 2020 shifted the para to DG (Oil) and directed to explain the reasons for export of condensate at discounted rates instead of reallocation to the local refineries.

Audit recommends to hold inquiry for sale of condensate at discounted rates besides improving monitoring of JVs by DG (Oil) to avoid such instances in the future.

[DP No. 797-OGDCL/ISB/2018-19]

## 2.2 Oil and Gas Development Company Limited

### 2.2.1 Introduction

Oil and Gas Development Company Limited (OGDCL) was established in 1961 as a public sector corporation which was converted into a public limited joint stock company on October 23, 1997 under the Companies Ordinance, 1984. The company is registered on Pakistan Stock Exchange as well as on London Stock Exchange. Currently, the GoP holds 74.97% of paid up capital of the company as on June 30, 2019. The company is engaged in exploration and development of oil and gas resources, including production and sale of oil and gas and related activities.

### 2.2.2 Comments on Audited Accounts

The financial results of the company for the year 2018-19 as compared to the previous years are tabulated below:

(Rs in million)

| | **2018-19** | **% Inc / (Dec)** | **2017-18** | **% Inc / (Dec)** | **2016-17** |
|---|---|---|---|---|---|
| Sales | 261,481.19 | 27.43 | 205,335.00 | 19.50 | 171,829.36 |
| Royalty | 29,335.93 | 33.52 | 21,970.95 | 18.64 | 18,518.98 |
| Operating expenses | 63,455.85 | 5.38 | 60,213.46 | 6.41 | 56,585.21 |
| Transportation charges | 1,627.85 | (2.57) | 1,670.85 | (2.85) | 1,720.98 |
| **Gross Profit** | **167,061.56** | **37.52** | **121,479.74** | **27.87** | **95,004.19** |
| Exploration and prospecting Expenditure | 12,499.32 | (22.80) | 16,190.50 | 22.02 | 13,268.58 |
| General & Admin. Expenses | 4,129.25 | 1.01 | 4,087.86 | (3.58) | 4,239.64 |
| Finance cost | 1,692.54 | (2.16) | 1,729.89 | 14.21 | 1,514.63 |
| Workers Profit Participation Fund (WPPF) | 9,294.71 | 56.80 | 5,927.72 | 26.35 | 4,691.45 |
| Other income | 32,288.25 | 101.70 | 16,008.12 | (0.08) | 16,020.33 |
| Share of profit in associate-net of taxation | 4,866.42 | 58.26 | 3,074.87 | 68.28 | 1,827.24 |
| Profit before taxation | 176,599.41 | 56.80 | 112,626.76 | 26.35 | 89,137.46 |

| | | | | | |
|---|---|---|---|---|---|
| Taxation | 58,213.625 | 71.77 | 33,890.46 | 33.77 | 25,334.06 |
| Profit for the year | 118,385.79 | 107.31 | 78,736.30 | 23.40 | 63,803.40 |
| Earnings per share | 27.53 | 50.36 | 18.31 | 23.47 | 14.83 |

*(Source: Annual Audited Accounts)*

i. The exploration and prospecting expenditure decreased to Rs 12,499.32 million in 2018-19 from Rs 16,190.50 million in 2017-18 which shows decrease of 22.80% as compared to previous years. The company's exploration portfolio also decreased from 114,581 sq. km in 2016-17 to 89,745 and 77,543 sq. km in 2017-18 and 2018-19 respectively. This needs to be explained with full facts and figures.

ii. The company produced 14,555 thousand BBL of crude oil, 370,217 MMCF of natural gas, 294,167 tons of LPG and 20,900 M. Ton of Sulphur in 2018-19 against 14,867 thousands BBL crude oil, 373,192 MMCF of natural gas, 250,984 tons of LPG and 24,800 M. Tons of Sulphur. Thus, management could not maintain the pace of production / sales except LPG which increased by 17.21% as compared to previous year. The reduction in production of oil by 3%, gas by 0.10% and sulphur by 15.73% needs to be explained along with the details of efforts being made to enhance production.

iii. The company's current assets stood at Rs 509,785.826 million as on June 30, 2019 which were 66.50% of the total assets. The said figure was at 32.4% in 2012-13. Further, the debtor's turnover was 111 days in 2013-14, but increased to 284 days in 2018-19. The company is advised to improve the assets management by investing more in fixed assets to expand the exploration activities besides early recovery of the outstanding amount.

iv. An amount of Rs 478,236 million was outstanding against major parties which also included LPS of Rs 116,264 million, 51% of which was outstanding against SSGC and SNGPL due to non-settlement of circular debt issue with the respective parties. It is recommended that in order to solve the problem of circular debt, Government may consider opening of Escrow accounts where all sales proceeds from gas and oil is deposited and a committee may be constituted to disburse the amounts to respective companies and refineries as per their due share.

v. The gross profit margin of the company was 71% in 2012-13 which decreased to 37.52% in 2018-19. The management is advised to exercise proper control over cost of production and enhance the exploration activities.

vi. The profit after tax increased by Rs 39,650 million which shows an increase of 50.36% as compared to the previous year. This increase in profit was mainly due to increase in price of petrouelm products resulting in extra revenue of Rs 20,000 million (increase in average basket price i.e. Saudi Aramco prices / Brent rates from US$ 61 in 2017-18 to US$ 69 in 2018-19) and Rs 42,000 million due to decrease in exchange rate (increase from Rs 110.09 to Rs 136.55 in 2018-19). Extra revenue of Rs 16,000 million was generated due to favourable interest rate on investments and foreign exchange gains. The scenario depicted that company's profit actually decreased by Rs 38,000 million due to reduction in production and extraordinary increase in operational expenses.

vii. The management failed to meet the major targets set in its business plan which shows that either the management was not serious towards achievements of targets or business plan was prepared ambitiously without keeping in view the realities. Reasons for non-achievement of targets needs to be expolred.

viii. The aging of stores and spares was being done on the basis of date of issue instead of date of purchase and no disclosure on the subject was available in the final accounts of the company which needs to be explained.

ix. M/s A.F. Ferguson & Co, the staturoy auditor as well as tax advisor of the company was also awarded a consultancy contract for physical verification and reconciliation of stores and spares inventory of OGDCL constituting visible conflict of interest. Reasons for award of consultancy contract giving rise to conflict of interest need to be justified.

### 2.2.3 Classified Summary of Audit Observations

Audit observations amounting to Rs 974,825.060 million were raised in this report during the current audit of OGDCL. This amount also includes

recoveries of Rs 498,460.009 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

### 2.2.4 Overview of Audit Observations

(Rs in million)

| Sr. No. | Classification | Amount |
|---|---|---|
| 1 | Irregularities | - |
| A | Project Management | 226,713.969 |
| B | Joint Venture related issues | 16,156.042 |
| C | Receivables Management | 561,106.102 |
| D | Procurement related irregularities | 1,351.410 |
| F | HR / Employees related irregularities | 213.511 |
| E | Corporate Social Responsibility | 6,710.157 |
| 2 | Others | 162,573.869 |

### 2.2.5 Compliance of PAC Directives

| Audit Year | Total Paras | Full Compliance | Partial Compliance | Pending Paras | % of compliance |
|---|---|---|---|---|---|
| 1994-95 | 19 | 14 | 05 | 19,21,26,27,31 | 74 |
| 1995-96 | 13 | 11 | 02 | 16,17 | 85 |
| 1998-99 | 09 | 04 | 05 | 143,144,145, 152,156 | 44 |
| 1999-00 | 11 | 08 | 03 | 196,197,3.7&3.7.1(PER-154) | 73 |
| 2000-01 | 29 | 24 | 05 | 176,179,186,190,196 | 83 |
| 2001-02 | 04 | 03 | 01 | 200 | 75 |
| 2002-03 | 05 | 03 | 02 | 202.2,204 | 60 |
| 2003-04 | 15 | 08 | 07 | 164&164.1,164.5&164.6,164.9,166,167,168,170 | 53 |
| 2004-05 | 04 | 03 | 01 | 106 | 75 |
| 2005-06 | 23 | 19 | 04 | 193.9,193.10,193.12,194 | 83 |
| 2006-07 | 30 | 29 | 01 | 171 | 97 |
| 2007-08 | 17 | 10 | 07 | 138.4,139,140, 142, 145,146, 148, | 59 |
| 2008-09 | 13 | 10 | 03 | 189,190,191 | 77 |
| 2009-10 | 12 | 09 | 03 | 193.3,196,198 | 75 |
| 2010-11 | 21 | 07 | 14 | 18.5.4.30, 18.5.4.35, 18.5.4.36, 18.5.4.37, 18.5.4.41, 18.5.4.44, 18.5.4.46, 18.5.4.47,18.6.1.5, 18.6.1.16, 18.6.2.4, | 33 |

| | | | | 18.6.4.6, 18.6.4.12, 18.6.4.14 | |
|---|---|---|---|---|---|
| 2013-14 | 28 | 10 | 18 | 13.6.2.4, 13.6.2.5, 13.6.4.3, 13.6.2.7, 13.6.4.1, 13.6.4.6, 13.6.1, 13.6.2.2, 13.6.2.3, 13.6.2.6, 13.6.2.8, 13.6.2.10, 13.6.2.13, 13.6.4.4, 13.6.4.8, 13.6.4.9, 13.6.4.10, 13.6.4.12, | 36 |
| 2016-17 | 41 | 25 | 15 | 13.6.4.8,13.6.4.12,13.6.4.23, 13.6.4.11,13.6.4.5,13.6.4.9, 13.6.1&13.6.2,13.6.2.7, ,13.6.2.9,13.6.2.10,13.6.2.12,13.6.2.13,13.6.3,13.6.4.16, 13.6.4.25,13.6.4.26, | 61 |
| **Total** | **294** | **197** | **96** | | **67%** |

Overall compliance of PAC directives was not satisfactory which needs to be improved.

## 2.2.6 Audit Paras

**Project Management**

***2.2.6.1 Unlawful production of petroleum products from Chak-5 Dim (Mithrao) – Rs 13,696.503 million***

As per Article 172(2) of Constitution of Islamic Republic of Pakistan, 1973 all land, minerals and other things of value within the continental shelf or underlying the ocean within the territorial water of Pakistan shall vest in the Federal Government. As per Rule 20(1) of Pakistan Petroleum (Exploration and Production) Rule, 1986, the license gives the holder the exclusive right to undertake, within the license area, all activities related to reconnaissance and exploration, including drilling, for Petroleum. The holder of the license is not entitled to extract any Petroleum from discoveries other than such test production as the Government may, in its discretion ,permit.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL obtained Sanghar concession on 100% ownership basis and drilled exploratory well at Chak-5 Dim (Mithrao) which resulted in discovery of

petroleum. OGDCL submitted an application to DG (PC) for grant of development and production lease (D&P) on April 11, 1995 which remained pending till September, 2019. OGDCL management however, started production from the field on January 31, 2007 after comingling it with Bobi Oil Complex by laying 38 KM pipeline, without prior approval of DGPC and obtaining the valid lease. OGDCL also drilled two more wells without prior approval from DG (PC) and submission of field development plan to DG (PC). Consequently, OGDCL unlawfully produced and sold 2,318,166.06 BBL of oil worth Rs 10,638.344 million and 7,028,261.36 MMBTU of gas worth Rs 3,048.158 million from 2006-07 to 2018-19 totalling to Rs 13,696.503 million without any lease, COSA or GSA.

Audit is of the view that wilful negligence on the part of Petroleum Division resulted in unlawful production of Petroleum Products worth Rs 13,696.503 million.

The matter was reported to the PAO in October 2019. The management in its reply dated November 04, 2019 stated that all the production from Chak-5 Dim Mithrao and Chak-5 Dim South was comingled with Bobi production since inception and collectively sold as Bobi sales. The applicable taxes and royalties had been paid on these sales hence, there was no loss to GOP in any case. The reply is not tenable as unlawful production was obtained without getting the lease from DG (PC). Moreover, additional social obligations and rent etc. were not paid which would have been recovered under the lease.

The DAC in its meeting held on January 02, 2020 directed the Petroleum Division to probe into the matter and fix responsibility for unlawful production and sale of hydrocarbon since 2006-07 without any D&P lease. No further progress was reported till finalization of the report.

Audit recommends Petroleum Division to hold an inquiry into the matter to fix responsibility for unlawful production beside deposit of revenue thereof in Government Treasury.

[DP No. 837]

### *2.2.6.2 Unlawful production of petroleum products after expiry of D&P lease – Rs 18,476.279 million*

As per Article 172(2) of Constitution of Islamic Republic of Pakistan, 1973 all land, minerals and other things of value within the continental shelf or underlying the ocean within the territorial water of Pakistan shall vest in the Federal Government. As per Rule 32 of Pakistan Petroleum (Exploration and Production) Rule, 1986, the Government may renew the lease for a period not exceeding 5 years, upon application from the holder, if commercial production is continuing at the time of the application. Further, as per Rule 43 ibid, the lease may be revoked if regular commercial production has not commenced within five years from the grant of the lease.

During audit of OGDCL Islamabad for the FY 2018-19, it was observed that OGDCL obtained D&P lease for Chak-5 Dim South on March 18, 1996 for a period till December 31, 2004. OGDCL, however, could neither commence production nor apply for extension till expiry of the lease. The management nevertheless started production from the Chak-5 Dim (South) on January 31, 2007 after commingling the said well with Bobi Oil Complex after lying 38 Kms pipeline. OGDCL produced 2,209,214.53 BBL of crude oil worth Rs 9,995.257 million and 20,479,948.14 MMBTU of gas worth Rs 8,481.022 million from 2006-07 to 2018-19 without having lease, COSA or GSA. Hence, the production of petroleum products amounting to Rs 18,476.279 million without valid lease from DG (PC) was unlawful.

Audit is of the view that wilful negligence of the company resulted in unlawful production of petroleum products amounting to Rs 18,476.279 million.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated November 04, 2019 stated that all the production from Chak-5 Dim Mithrao and Chak-5 Dim South was comingled with Bobi production since inception and collectively sold as Bobi sales. The applicable taxes and royalty were also paid on these sales hence there was no loss to GoP in any case. The reply is not tenable as unlawful production was obtained without getting lease from DG (PC). Moreover, additional social obligations and rent etc. were not paid which would have been recovered under the lease.

The DAC in its meeting held on January 02, 2020 directed the Petroleum Division to look into the matter and fix the responsibility for unlawful production and sale of hydrocarbons since 2006-07.

Audit recommends to fix responsibility for unlawful production and ensure deposit of sale proceeds to the Government.

[DP No. 447]

### *2.2.6.3 Unlawful production of Hydrocarbons from Nashpa field – Rs 110,193.992 million*

As per Article 172(2) of Constitution of Islamic Republic of Pakistan, 1973 all land, minerals and other things of value within the continental shelf or underlying the ocean within the territorial water of Pakistan shall vest in the Federal Government. As per Rule of 20(1) of Pakistan Petroleum (Exploration and Production) Rule 1986, the license gives the holder the exclusive right to undertake, within the license area, all activities related to reconnaissance and exploration, including drilling, for Petroleum. The holder of the license was not entitled to extract any Petroleum from discoveries other than such test production as the Government may in its discretion permit. Further, as per Petroleum Policy, 1997, there was not facility of Extent Well Testing (EWT) for early production.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL discovered Mela and Nashpa fields in 2006 and 2009 respectively. The company started commercial production and sale under earlier production facility i.e. before grant of D&P lease which was not allowed in Petroleum Policy 1997. OGDCL management submitted Date of Commerciality (DOC) in respect of Nashpa field on December 21, 2011 and in respect of Mela field, on February 20, 2012 which was approved by DG (PC) on June 13, 2012 and April 02, 2013 respectively. Hence, the production of hydrocarbons worth Rs 110,193.992 million, in the absence of lease from 2006 to 2013, was unlawful and needed to be deposited into the Government treasury as per the Constitution.

Audit is of the view that the company extracted and sold hydrocarbons amounting to Rs 110,193.992 million unlawfully without valid lease.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated under Rule 20(1) of Pakistan Petroleum (Exploration & Production) Rules 1986, the Government allowed M/s OGDCL to conduct EWT with in extension period of Neshpa on May 20, 2010. Furthermore, DG (PC) vide letter dated June 13, 2012 allowed OGDCL to take production from Nashpa field including Nashpa-2 appraisal well through early production facility till grant of D&P lease. The reply is not tenable as unlawful production was obtained without getting proper lease from DG (PC). Furthermore, early production facility was not allowed under the said policy, and additional social obligations and rent etc. were not paid which would have been recovered under the lease.

The DAC in its meeting held on January 02, 2020 directed the Petroleum Division to investigate the matter and fix responsibility for unlawful production and sale of hydrocarbons without any D&P lease.

Audit recommends to fix responsibility for unlawful production and deposit the sales revenue in Government treasury besides improving internal controls.

[DP No. 470]

### *2.2.6.4 Loss due to delay in installation of LPG plant at Nashpa field - Rs 48,881 million*

As per Article 30.1 of Model Petroleum Concession Agreement, the operator shall conduct all exploration, exploitation, drilling, development and production operations in accordance with good international oilfield practices and the principles and standards laid down in the Rules. Consistent with this requirement, the operator shall endeavor to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of petroleum.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL discovered Mela and Nashpa fields in 2006 and 2009 respectively and

started commercial production and sale under earlier production facility. A feasibility study for gas processing, LPG recovery plan and allied facilities at Nashpa field was conducted in July 2011, which stated that the field reserves would decline in 2025 by more than 30% on September 21, 2013 A LOI was issued to M/s TDE consortium for extraction of LPG recovery plant which was cancelled after one year on September 2, 2014. OGDCL again started tendering process in September, 2014 and finally a contract was awarded to M/s HHGTL/HBP China for US$ 148.000 million on November 16, 2015 to be completed in 17 months and LPG production started in February, 2018. Thus delay in conducting the feasibility study and installation of Nashpa plant resulted in loss of revenue due to non-extraction of LPG worth Rs 48,881 million [(372 ton LPG x 360 days x @ Rs 60,000 per ton) x 6 year (from 2009 to 2014)].

Audit is of the view that the management wasted three years in tendering process ignoring the opportunity cost which resulted in loss of Rs 48,881 million due to non-extraction of LPG from 2009 till 2014.

The matter was reported to PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that the contents of this Para had already been made part of two other Audit Paras i.e., Para No. 3 in 2018-19 regarding loss due to delay in installation of Mela-Nashpa transmission pipeline and PSE Para No. 15.6.4.1 of ARPSE 2015-16 regarding revenue loss due to non-installation of LPG plant at Nashpa field. The reply is not tenable as para-3 was about Mela field only and para 15.6.4.1 was about delay in finalization of work as per contract agreement.

The DAC in its meeting held on January 2020 directed the management to submit revised reply and get the relevant record verified from Audit within a month. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for poor project management causing abnormal delay in installation of LPG recovery plant, besides improving management practices to avoid such instances in future.

[DP No. 832]

### *2.2.6.5 Blockage of funds due to delay in laying of transmission pipeline by SNGPL - Rs 8,916.48 million*

Article 30.1 of Model Petroleum Concession Agreement states that the operator shall conduct all exploration, exploitation, drilling, development, and production operations in accordance with good international oilfield practices and the principles and standards as laid down in the Rules. Consistent with this requirement, the operator shall endeavor to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of petroleum.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL discovered Dhok Hussain well No. 01 on December 21, 2017 with reserves of 12.11 MMBOE of oil and 10 to 10.8 MMCF of natural gas. DG (PC) granted lease for initial period of 25 years on April 16, 2019 and allocated gas to to SNGPL. Consequently the management incurred capital expenditure of US$ 6.202 million and operating expense of US$ 0.585 million on development of the field. The management made additional investment of US$ 14.591 in 2017 and US$ 34.351 in 2018 on 2$^{nd}$ well up to July 2019 ignoring the progress of transmission to be laid by SNGPL. However, the production of gas from the field could not be started as transmission pipeline could not be laid by SNGPL. This resulted in blockage of fund of Rs 8,916.48 million.

Audit is of the view that poor project management and lack of coordination resulted in delay in laying of pipeline.

The matter was reported to the PAO on November 15, 2019. The management it its reply dated December 26, 2019 stated that Secretary (Petroleum Division) was requested on May 10, 2019 to advise M/s SNGPL to expedite laying of pipeline so that 12 MMCFD gas could be injected in the system. DG (Gas) also requested Chief Secretary (Khyber Pakhtunkhwa) on May 20, 2019 for intervention to settle the dispute between local residents / political elders and SNGPL. The reply is not tenable as OGDCL neither kept in view the progress of transmission line to be laid by SNGPL nor made any serious effort for resolution of the issue.

Audit recommends to fix responsibility for poor project management and lethargic attitude causing blockage of public funds.

[DP No. 430]

### *2.2.6.6 Wasteful development expense incurred on Jhal Magsi plant – Rs 2,298.202 million*

As per Rule 43 of Pakistan Petroleum (Exploration and Production) Rule, 1986, the lease may be revoked if regular commercial production has not commenced within five years from the grant of the lease. Article 30.1 of Model Petroleum Concession Agreement states that the operator shall endeavour to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of petroleum.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL made two discoveries in Jhal Magsi South in 2004 and obtained D&P lease from DG (PC) on July 25, 2009. Accordingly, on July 27, 2011 M/s PEPCO recommended for installation of power plants at Zarghon Town, Quetta which was rejected by DG (PC) on October 25, 2011. Instead DG (Gas) allocated 15 MMCFD gas from the field to SNGPL and SSGC on equal sharing basis on March 05, 2013. As per plan SSGC was to lay 85 kilometer pipeline of 8” dia from Jhal Magsi South field to Quetta. The SSGC BoD approved the pipeline project on February 04, 2011 but pipeline was not laid upto 2016 due to law and order situation. Hence, inventory procured by OGDCL for the project remained unutilized in stock. Subsequently, due to failure of SSGC to lay the gas pipeline, Ministry of Energy (Petroleum Division) allowed OGDCL to sell the gas on commercial basis to any other party. However, management could not initiate efforts in this context and requested the DG (PC) on January 13, 2017 to declare force majeure in Jhal Magsi, thus rendering expense of Rs 2,298.20 million on development of field wasteful.

Audit is of the view that poor project management resulted in incurrence of development expense of Rs 3,600 million without any commercial production.

The matter was reported to the PAO on November, 15 2019. The management in its reply dated December 26, 2019 stated that only civil work

was carried out by the time project was put on hold due to law and order situation in the area and some dispute with locals. The reply is not tenable as plant had also been acquired and huge investment had been made but no concurrent effort was made to resolve the issue with locals since 2011.

The DAC in its meeting held on January 02, 2020 directed the Petroleum Division to resolve the issue in consultation with stakeholders at the earliest. No further progress was reported till finalization of the report.

Audit recommends to investigate the matter with a view to fix responsibility for delay in completion of project causing wasteful expenditure.

[DP No. 804]

### *2.2.6.7 Loss due to non-initiation of action against the contractor – Rs 56.29 million*

As per Article 13.3 of Petroleum Sharing Agreement, the contractor shall establish appropriate procedures, including tender procedures in consultation with GHPL, for acquisition of goods and services and the tenders shall be awarded on the basis of open competitive bidding. The procedures for such bidding and the exceptions to bidding in cases of emergency shall meet, and be subject to, all other requirements for tenders set out in this Agreement.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL was a JV partner in Indus Off shore Block-G with ENI, PPL and Exxon Mobil, each having equal share of 25%. ENI, being operator of the JV, initiated the process for hiring Logistic Marine Base services for UDW for Kekra-1 from July 2018 to July 2019. As a result of the bidding, M/s GAC (Pakistan) was found to be the lowest bidder with US$ 4.24 million. Later on, the said bidder regretted to perform the work due to internal structural changes in the firm. Resultantly, the contract was awarded to the 2nd lowest bidder, M/s Viking Shipping Services, at US$ 6.70 million. OGDCL, along with other JV partners, granted its approval for contract to the 2nd lowest bidder with the request to blacklist M/s GAC (Pakistan). However, no step for forfeiture of bid bond and blacklisting of the company was taken by the operator. This resulted in a loss of Rs 56.29 million due to non-encashment of performance guarantee/bid bond.

Moreover, the management failed to insert a clause regarding recovery of risk and cost in case of default due to which the difference in bids could not be obtained from the 1st bidder.

Audit is of the view that poor monitoring by OGDCL resulted in non-initiation of action against the defaulter causing loss of Rs 56.29 million.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that the tendering exercise was carried out at the end of 2015 in very favourable market price situation and the contract was awarded by ENI Affiliate in 2016. The reply is not tenable as the management was required to pursue the case with ENI to initiate action against the contractor.

Audit recommends PAO to fix responsibility for non-initiation of action against the contractor besides devising mechanism for monitoring of JVs improving monitoring controls.

[DP No. 843]

***2.2.6.8 Loss due to delay in installation of Mela-Nashpa transmission pipeline - Rs 6,303.60 million***

As per Section 7.3 of Field Development Plan (FDP) dated October 12, 2012, the Central Processing Facility (CPF) would be installed at Nashpa field to cater the production from Mela and Nashpa fields. The designed capacity of the plant from gas processing would be 100 MMCFD from Nashpa and Mela fields.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL started commercial production from Mela in 2007 without installation of LPG recovery plant till 2015. It was decided that Mela gas would be processed in combined processing facility to be installed at Nashpa. The Nashpa plant started LPG production in February, 2018 but management failed to fetch raw gas of Mela field to Nashpa field by laying 22 KM pipeline. OGDCL started laying pipeline from June 01, 2018 which was to be completed up to December 2020. This delay resulted in loss of revenue of Rs 6,303.60 million (102 ton LPG/day x 1,030 days x Rs 60,000 per ton) (from February, 2018 to December, 2020)].

Audit is of the view that inefficiency and poor project management resulted in non-laying of pipeline causing loss of Rs 6,303.60 million.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that the decision to process Mela gas at Nashpa LPG Plant was taken in January 2017. The project was finally approved by MD/ CEO in February 2018. Mela Nashpa pipeline would be commissioned in next two to three months. The reply is not tenable because Mela field was to be connected with Naspha plant as per FDP approved in 2012. The management was required to initiate laying of pipeline accordingly.

In DAC meeting held on January 30, 2020 the management stated that Mela field was declared to be developed along with Nashpa field with a common LPG extraction facility at Nashpa as evident from FDP which could not be initiated due to fluctuation in production at Nashpa field. DAC directed the management to get the stated facts verified with supporting documents from Audit within a month. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for ill-planning causing delay in laying of pipeline resulting in revenue loss to the public exchequer.

[DP No. 842]

### *2.2.6.9 Loss due to non-tie in of Mela field with Chanda field – Rs 17,625.60 million*

As per Article 30.1 of Model Petroleum Concession Agreement, the operator shall conduct all exploration, exploitation, drilling, development and production operations in accordance with good international oilfield practices and the principles and standards as laid down in the Rules. Consistent with this requirement, the operator shall endeavour to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of petroleum.

During audit of OGDCL for the FY 2018-19, it was observed that Chanda field which was developed in 2003, started production in 2007 and was producing 16 M. Tons of LPG per day. In 2018-19 Chanda field was producing

9.53 M. Tons of LPG per day. Mela field started its commercial production in 2007 under early production facility and was producing 1,506 BBL of oil and 8.19 MMCFD of gas in 2018-19. Mela and Chanda fields were adjacent with each other, with only a fence between them hence, making tie in arrangement between these two fields was feasible. However, Mela was not tied-in with Chanda plant hence, LPG could not be extracted from Mela field although Chanda LPG plant had surplus capacity. This resulted in loss of 102 M. Tons of LPG per day from Mela raw gas resulting in revenue loss of Rs 17,625.600 million [102 tons per day * 2,880 days (from 2010 to 2018) * Rs 60,000 per ton].

Audit is of the view that poor strategic planning and delay in decision making resulted in loss of Rs 17,625.600 million.

The matter was reported to the PAO in September, 2019. The management in its reply dated November 07, 2019 stated that at the time of commissioning of LPG unit at Chanda plant in 2007, there was no possibility to process Mela field fluid at Chanda facilities due to design capacity limitation at Chanda LPG Plant. Installation of LPG plant for the combined fluid of Mela and Nashpa at Nashpa field being the most economically viable option was therefore, considered. The reply is not tenable as the management should have considered tie in option in 2007 for timely and economical extraction of LPG from Mela field.

In DAC meeting held on January 30, 2020 the management stated that Mela field was to be developed along with Nashpa at a common LPG extraction facility at Nashpa field as it was not viable as standalone project. DAC directed the management to get the stated facts regarding non-viability with supporting documents verified from Audit within a month. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for ill-planned project management and improve decision making and internal controls.

[DP No. 835]

### *2.2.6.10 Loss due to acceptance of less bid bond money – Rs 138 million*

As per tender notice published in Business Recorder Islamabad, on December 22, 2012, for acquisition of the services of Engineering, Procurement, Construction and Commissioning (EPCC) Contractor for Gas Processing and LPG recovery plant and Allied Facilities at NASHPA oil field, bid Bond value was prescribed US$ 2.0 million.

During audit of OGDCL Islamabad for the FY 2018-19, it was observed that the management floated a tender for hiring the services of EPCC contractor for gas processing facility LPG recovery plant and allied facility at Nashpa field on December 22, 2012. In tender advertisement, a bid bond of US$ 2.0 million was demanded from the bidder which was subsequently reduced to US$ 0.5 million and OGDCL issued LOI to the contractor on September 21, 2013. The contract, however, could not be finalized and OGDCL cancelled the LOI after one year without encashing the bid bond of US$ 0.5 million. Acceptance of lesser bid bond US$ 0.5 million instead of US$ 2.0 million caused loss of Rs 138 million (US$ 1.5 million*Rs 92/$) in addition to loss of valuable time and additional cost in the revised tender.

Audit is of the view that undue favour by management resulted in acceptance of less bond money causing a loss of Rs 138 million besides delay in project completion.

The matter was reported to the PAO on September 26, 2019. The management in its reply dated November 11, 2019 stated that during post-bid clarifications, the bidders requested to rationalize the bid bond for maximum participation. The reply is not tenable as number of participants could not be increased after receipt of technical bids. Further, no change could be made in terms and conditions after opening of tender.

In DAC meeting held on January 30, 2020, the management explained that the amount of bid bond was reduced to ensure wider participation. DAC directed the management to seek clarification from PPRA on:

A) The reduction of bid bond amount on the request of one of the prospective bidder.

B) Response time of ten days rather than 30 days through corrigendum.

No further progress was reported till finalization of the report.

Audit recommends to conduct inquiry into the matter and fix responsibility on the person(s) at fault besides improving internal controls.

[DP No. 426]

***2.2.6.11 Loss due to unlawful sale of gas at lower rates – Rs 128.023 million***

As per Clause 6.6 of Gas Sales Purchase Agreement dated April 16, 2013, the buyer's facilities shall have provision to flare the gas during the period of non-utilization or of temporary shutdown. The price of such flared gas shall be payable by the buyer to the seller. As per OGRA price notifications issued from time to time, minimum charges were to be paid by CNG station.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL awarded contract for sale for natural gas to M/s Petrosin CNG Private Limited on May 20, 2014 from Nashpa field without obtaining prior approval of compression from OGRA. Moreover, OGDCL sold the gas @ Rs 477/MCF on the pretext of low pressure gas instead of prescribed rate of natural gas by OGRA which was Rs 700 per MMBTU. The contract was further extended on January 30, 2017 for two years up to May 19, 2018 without fresh tendering. Thus OGDCL suffered loss of Rs 126.843 million from 2013 to 2018 on account of lower rate. Further, the fixed charges of Rs 1.180 million (@ Rs 23,604 per month for the same period) were not charged to the contractor as per rates notified by OGRA.

Audit is of the view that weak internal controls and poor financial management resulted in loss of Rs 128.023 million due to unlawful sale of gas at lower rates.

The matter was reported to the PAO on September 15, 2019. The management in its reply dated December 26, 2019 stated that OGDCL auctioned Nashpa low pressure (Raw) gas through open press tender on January 23, 2014. Three bids were received out of which M/s Petrosin CNG quoted the highest rate

of Rs 477 per MCF and agreement was signed on May 20, 2014. The low pressure gas could not be injected in SNGPL system. The reply is not tenable as low pressure gas was sold at lower rates for CNG station without prior approval of the regulators.

The DAC in its meeting held on January 02, 2020 directed the Petroleum Division to conduct a fact finding inquiry into the issue and submit its recommendations by February 29, 2020. No further progress was reported till finalization of the report.

Audit recommends the PAO to fix responsibility for unlawful sale of gas at lower than rate prescribed by OGRA resulting in loss to the Government exchequer.

[DP No. 829]

**Joint Venture related issues**

***2.2.6.12 Irregular award of contract for hiring of Rig Saipem 12000 – Rs 3,255.057 million***

As per Article 13.3 of Petroleum Sharing Agreement, the contractor shall establish appropriate procedures, including tender procedures in consultation with GHPL, for acquisition of goods and services and the tenders shall be awarded on the basis of open competitive bidding. The procedures for such bidding and the exceptions to bidding in cases of emergency shall meet, and be subject to, all other requirements for tenders set out in this Agreement.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL was a JV partner in Indus Offshore Block-G with ENI, PPL and Exxon Mobil, each having equal share of 25%. ENI, being operator of the JV, initiated process for hiring of offshore Rig Saipem 12000 for UDW for Kekra-1. However, instead of resorting to open competition as per PSA, ENI proposed M/s Saipem which had already provided the said equipment for ENI exploration campaign in Morocco. The contractor quoted US$ 21.5 million for the equipment. OGDCL vide email dated May 14, 2018 objected the high cost on the ground that current prevailing market rate for such rig was US$ 140,000 to US$ 160,000 instead of US$ 198,000 per day. Further, the mobilization cost

from Europe (origin) to Cape Town for US$ 1.5 million was also not justifiable. However, OGDCL gave approval in June 2018 without any amendment in the already objected rates. The contract was later revised to US$ 23.4 million to cover the additional scope of demobilization cost of US$ 1.99 million. This resulted in irregular award of contract for Rs 3,255.057 million (US$ 23.4 million)

Audit is of the view that weak monitoring by OGDCL resulted in irregular award of contract amounting to Rs 3,255.057 million without open competition.

The matter was reported to the PAO on November 21, 2019. The management in its reply dated December 26, 2019 explained that the rig was hired on the most competitive rates followed by international survey. The reply is not tenable as the rates / contract was never shared with OGDCL on the ground of being confidential and management relied just on the intimation communicated by the operator. Thus, the process adopted was not transparent as required under PSA.

The DAC in its meeting dated January 02, 2020 directed the management to provide complete relevant record to Audit for verification within one week. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for award of contract in violation of PSA besides improving monitoring of JVs.

[DP No. 421]

### *2.2.6.13 Higher gas processing charges on Ratana Gas – Rs 2,050.215 million*

As per Article 30.1 of Model Petroleum Concession Agreement, the operator shall conduct all exploration, exploitation, drilling, development, and production operations in accordance with good international oilfield practices and the principles and standards as laid down in the Rules. Consistent with this requirement, the operator shall endeavor to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of petroleum.

During audit of OGDCL, Islamabad for the FY 2018-19, it was observed that OGDCL entered into gas processing agreement with POL on February 20, 2006 for extraction / sales of LPG of Ratana gas field from Mayal facilities @ US$ 300/M. Ton. The processing charges of US $ 546 to US$ 601.965/MMCF would be charged which would increase by 5% on alternate year. During 2002 to 2018-19, 40,524,512 MMBTU were processed by paying Rs 2,050.215 million. OGDCL vide letter dated April 28, 2016 communicated to Ocean Pakistan Ltd (OPL), that JV was suffering monthly losses of US$ 31,162 due to higher gas processing charges and may be reduced by US$ 159 to 169 per MMCF. It was further noticed that Sinjhroo JV (Operated by OGDCL) was providing same facility @ 250/MMCF. Moreover, OPL was also claiming different losses i.e. acid, shrinkages, fuel, flare and volumetric corrections / pipeline shrinkage etc. which ranged from 15.32% to 17.21%. Hence, instead of processing the gas at exorbitant rate, the said gas could have been sold out to SNGPL at discount prices ranging from 10% to 20% as off specification gas.

Audit is of the view that undue benefit was extended to M/s OPL by paying high gas processing charges instead of making direct supply to SNGPL at discount rates.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that in 2016, Ratana wells was depleting, and the processing of Ratana gas at Mayal facility was not favourable during the summer when LPG prices were at rock bottom. In agreement dated December 05, 2018 POL compensated losses to JV partners from March 01, 2016. The reply is not tenable because the higher processing charges were paid till 2016 without keeping in view the prevailing market rates as OGDCL itself was charging processing fee @ US$ 250 for Sinjhroo field whereas US$ 540 was being paid to private party for Ratana.

In DAC meeting held on January 30, 2020 the management of OGDCL provided OCM resolution regarding Sinjhoro gas processing charges which were around US$ 450 per MMCF. Moreover, the management stated that from start till end the Ratana Gas processing was economical option comparing to that supplying off specification gas to SNGPL. DAC directed the management to get

the stated fact verified from Audit within two weeks. No further progress was reported till finalization of the report.

Audit recommends to inquire the matter and fix responsibility for giving undue benefit to private party besides taking remedial measures to avoid such instances in future.

[DP No. 827]

### *2.2.6.14 Non-fulfillment of work units in Khanpur Concession - Rs 1,617.600 million*

According to Clause 3.4 of Khanpur PCA, the working interest owners hereby agree to pay to DG (PC), as compensation for non-performance, an amount equal to the value of total unaccomplished work units (the value of 1 work units shall be US$ 10,000 or as specified at the time of invitation to Bid) during relevant phase of the initial term or during the first renewal or second renewal.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL obtained the exploration license of Khanpur in 2014 with the minimum work commitment of 1,011 work unit for the initial term of license period. Consequently, management incurred an expense of Rs 22.676 million on payment of training fund, social welfare and exploration license as compulsory obligation and Rs 0.432 million on finance, internal audit department, system support and E&P division from 2014 to 2019. However, the management failed to discharge work commitment in Khanpur Concession which resulted in non-performance of work commitment amounting to Rs 1,617.600 million (US$ 10,000 per unit x work unit 1011 x Rs 160 = 1 US$).

Audit is of the view that weak management controls resulted in non-fulfillment of work commitments causing a loss of Rs 1,617.600 million.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that the Khanpur licence was granted to OGDCL on February 21, 2014 for an initial term of three years which expired on February 20, 2017. OGDCL consumed 925.4 work units

against 1,011 total work units. As per PCA, extension was granted by DG (PC) w.e.f. February 21, 2019 to February 20, 2021. The reply is not tenable as no documentary evidence for acquisition of seismic data was provided for verification.

The DAC in its meeting held on January 02, 2020 directed the management to get the relevant record along with detail of work units agreed / performed verified from Audit within one week. No further progress was reported till the finalization of the report.

Audit recommends the PAO to ensure the fulfillment of work commitment as per PCA.

[DP No. 387]

### *2.2.6.15 Loss due to non-encashment of performance guarantee – Rs 1,541.28 million*

According to Design, Engineering, Procurement, Construction and Commissioning (EPCC) contract subject to force majeure clause, if the contractor fails to complete the project within the time period specified in the contract, the company shall, without prejudice to other remedies under the contract, deduct from the contract price / bank guarantee as liquidated damages , a sum not more than 0.5% of the contract price per week or part therefore, for the first four week, 1% per week for next four weeks and 1.5% per week exceeding four weeks up to maximum extent of 10% of the contract value.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL was JV partner in the Adhi Exploration Lease with PPL and POL. PPL being the operator of the lease awarded contract for setting up of LPG and NGL recovery plant for US $ 98.8 million (foreign component US$ 81.812 million and local component of Rs 1,789.90 million) to M/s Presson Descon International (Pvt) Ltd (PDIL) on December 30, 2013. The contractor deposited bank guarantee of Rs 1,541.28 million (US$ 9.88 million @ Rs 156) dated January 27, 2014 valid up to September 30, 2016. As per schedule the said project was to be completed till September 30, 2016 but the one year defect liability period was completed on June 15, 2018. There were still vibration issues

relating to the gas turbine of power generation system which could not be resolved even till June 19, 2019. Yet PPL failed to encash the performance guarantee of Rs 1,541.28 million.

Audit is of the view that weak monitoring by OGDCL resulted in non-encashment of performance guarantee causing loss of Rs 1,541.28 million.

The matter was reported to the PAO on November 29, 2019. The management in its reply stated that due to high vibration GTG-A contract was extended till December 16, 2019. The project close-out was yet to be finalized with the contractor and would be dealt in accordance with the provision of terms of contract. The reply is not tenable as the project was to be completed up to September, 2016 but the vibration issues could not be resolved despite 7 extensions. Hence, performance guarantee was needed to be encashed.

In DAC meeting held on January 30, 2020 the management explained that the issue of settlement of LDs, performance guarantee and counter claims of contractor would be settled at the time of project closure. DAC directed the management to ensure early closure of project and verify the amount of performance guarantee. No further progress was reported till finalization of the report.

Audit recommends the PAO to investigate the matter regarding non-encashment of performance guarantee besides improving monitoring of JVs.

[DP No. 451]

### *2.2.6.16 Mis-procurement in hiring of directional drilling services – Rs 945.588 million*

As per Article 13.3 of Petroleum Sharing Agreement, the contractor shall establish appropriate procedures, including tender procedures in consultation with GHPL, for the acquisition of goods and services and the tenders shall be awarded on the basis of open competitive bidding.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL was a JV partner in Indus Offshore Block-G with ENI, PPL and Exxon Mobil, each having equal share of 25%. M/s ENI, being operator of the JV,

initiated the process for hiring directional drilling services for US$ 7.112 million for UDW for Kekra-1 for one year i.e. from July 2018 to July 2019. However, instead of resorting to open competition, M/s ENI recommended that M/s Baker Hughes EHO Ltd., which had already worked with them during 2015-2016 may be awarded the contract for the said services for Rs 945.588 million (US$ 7.122 million) under farm in strategy. OGDCL, along with GHPL and PPL, gave its approval for award of work to M/s Baker Hughes EHO and the contract was awarded to the said contractor.

Audit is of the view that weak monitoring of OGDCL and GHPL resulted in mis-procurement in acquisition of directional drilling services at a cost of Rs 945.588 million in violation of PSA.

The matter was reported to PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that farm-in strategy was adopted for bringing substantial benefit to ultra-deep exploration project. The tendering process was carried out at the end of 2015 in favourable market price situation and the contract was awarded by ENI in 2016. The reply is not tenable because the operator had applied the rates finalized in 2015 whereas OGDCL management informed its BoD that rates of all drilling services were in decline by up to 70% due to slump in the oil and gas industry. Hence, fresh tendering should have been done to get competitive rates.

The DAC in its meeting held on January 02, 2020 directed the management to seek comments from DG (PC) in the light of PSA clauses referred in the para within a month. No further progress was reported till finalization of the report.

Audit recommends the PAO to fix responsibility for acquiring services without open competition besides devising mechanism for monitoring of JVs.

[DP No. 382]

***2.2.6.17 Unjustified charging of indirect cost - Rs 811.324 million***

Indirect charges are specified in Clause 3 of the accounting procedure read with Article-II (2) that the operator will incur certain expenses in the

performance and discharge of its functions and duties. Such expenses relate to legal, treasury, tax (other than corporate income tax) employee relations, and all operating departments' having a general action in the operations of joint operations. The carrying out of such functions shall be compensated as a whole by overhead charges according to the percentages.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL was JV partner along with M/s MOL, PPL, GHPL and POL in TAL block. MOL, being JV operator, claimed indirect charges of Rs 811.324 million (US$ 7.654 million) for the period from 2015 to 2018 relating to its head office at Hungary. However, detailed working for charging the indirect charges was not provided by MOL while lodging the said claims. Hence, charging of extraordinary overheads in addition to MOL's local office expenses which were already being paid by the JV partners was unjustified.

Audit is of the view that defective financial management by OGDCL resulted in unjustified charging of indirect cost by the JV operator amounting to Rs 811.324 million.

The matter was reported to the PAO on November 29, 2019. The management in its reply dated December 26, 2019 stated that provision for indirect charges was a standard provision. The said amount was aggregated from 2015 to 2018 and was released through single payment. The reply is not tenable because M/s MOL was not entitled to recover the expenses incurred by its head office at Hungary as there was no such provision in the PCA / Petroleum policies.

Audit recommends the PAO to recover the inadmissible indirect cost from M/s MOL besides improving monitoring of the JVs.

[DP No. 453]

***2.2.6.18 Recurring loss due to higher transportation cost - Rs 624.535 million***

As per Article 30.1 of Model Petroleum Concession Agreement, the operator shall conduct all exploration, exploitation, drilling, development and production operations in accordance with good international oilfield practices

and the principles and standards as laid down in the Rules. Consistent with this requirement, the operator shall endeavor to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of petroleum.

During audit of OGDCL for the FY 2018-19, it was observed that OGOCL was JV partner in TAL JV along with MOL, PPL, GHPL and POL. M/s MOL, being the operator of JV, incurred an average cost of Rs 461 per barrels on transportation of crude oil from Makori East lease. On the other hand, OGDCL, JV operator in adjacent Nashpa block, incurred an average cost of Rs 313 per barrels on transportation of crude oil. This extra cost on transportation in TAL block caused additional recurring expense of Rs 624.535 million per year.

Audit is of the view that weak monitoring by OGDCL resulted in annual recurring loss of Rs 624.535 million.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that the crude oil from TAL block was being transported to four different destinations. The average rates for transportation of crude oil ranged from Rs 252 to Rs 293 during the year 2014 to 2019. The reply is not tenable as no supporting record was produced to Audit for verification.

In DAC meeting held on January 30, 2020, the management explained that TAL block condensate was being transported on competitive rates which ranged from Rs 251 to Rs 293 per BBL during 2014 to 2019. DAC directed the management to provide details of bidding process carried out by OGDCL along with comparative statement prepared by MOL for different routes. No further progress was reported till finalization of the report.

Audit recommends to inquire the matter for extraordinary variation in transportation cost besides improving monitoring of JVs.

[DP No. 467]

### *2.2.6.19 Mis-procurement in hiring of drilling fluid services – Rs 595.447 million*

As per Article 13.3 of Petroleum Sharing Agreement, the contractor shall establish appropriate procedures, including tender procedures in consultation with GHPL, for the acquisition of goods and services and the tenders shall be awarded on the basis of open competitive bidding.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL was a JV partner in Indus Offshore Block-G with ENI, PPL and Exxon Mobil, each having equal share of 25%. M/s ENI, being operator of the JV, initiated the process for hiring of drilling fluid services for UDW for Kekra-1 from October 01, 2018 to September 31, 2019. M/s ENI was already in contract with M/s Halliburton Worldwide Ltd. Pakistan for drilling fluid services for 22 wells. The said contract was entered into through open competition carried out in 2015-16 by M/s ENI. Consequently, ENI did not invite bids for acquisition of the said services as all the JV partners agreed to acquire the services from the same contractor for 12 months for Rs 595.447 million (US$ 4.831 million) and communicated their consent on September 27, 2018 without any objection.

Audit is of the view that weak financial controls by the Company resulted in mis-procurement in acquisition of drilling fluid services amounting to Rs 595.447 million in violation of PSA.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that farm-in strategy was adopted for bringing substantial benefit to ultra-deep exploration project. The tendering process was carried out at the end of 2015 in favourable market price situation and the contract was awarded by M/s ENI in 2016. The reply is not tenable because the operator had applied the rates finalized in 2015 whereas OGDCL management informed its BoD that rates of all drilling services were in decline up to 70% due to slump in the oil and gas industry. Hence, fresh tendering should have been done to get competitive rates. No further progress was reported till finalization of the report.

The DAC in its meeting held on January 02, 2019 directed the management to seek the comments from DG (PC) in the light of PSA clauses referred in the para within a month.

Audit recommends the PAO to fix responsibility for acquiring the services without open competition besides devising mechanism for monitoring of JVs.

[DP No. 386]

### *2.2.6.20 Wasteful expenditure without any exploration activity in Armala concession - Rs 593.600 million*

According to Clause 3.4 of Armala PCA, the working interest owners hereby agree to pay to DG (PC), as compensation for non-performance, an amount equal to the value of total unaccomplished work units (the value of 1 work units shall be US$ 10,000 or as specified at the time of invitation to bid) during relevant phase of the initial term or during the first renewal or second renewal.

During audit of OGDCL for the FY 2018-19, it was observed that the management obtained exploration license for Armala North in 2014 with the minimum work commitment of 371 work units for initial term of license period. The management, however, booked negative expenditure of Rs 9.993 million as per ledger accounts of OGDCL. This showed that the management failed to perform a single work unit in Armala Concession resulting in loss of Rs 593.600 million (US$ 10,000 per unit x work unit 371 x Rs 160=I US$).

Audit is of the view that weak management controls resulted in non-fulfillment of work commitments causing a loss of Rs 593.600 million.

The matter was reported to the PAO in November 2019. The management in its reply dated December 26, 2019 stated that OGDCL had acquired, processed and interpreted 852 L. Kms of 2D seismic in the license area against the commitment of 371 work units and consumed 256 units with financial expenditure of about US$ 16.844 million. Currently the operator was working in Orakzai E.L. where OGDCL had a commitment of 417 work units.

As the committed work units in Orakzai E.L. had not been consumed, therefore, OGDCL requested DG (PC) to shift the outstanding commitment of 115 working units of Armala EL against the future exploration activities in Orakzai EL. The reply is not tenable as no documentary evidence for acquisition of seismic data was provided for verification.

The DAC in its meeting held on January 02, 2020 directed the management to get the relevant record along with detail of work units agreed / performed verified from Audit within one week. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for failure to carry out the exploration activity as per commitments of PCA besides improving management controls.

[DP No. 383]

### *2.2.6.21 Wasteful expense without any exploration activity in Gwadar Concession - Rs 563.581 million*

According to Clause 3.4 of Gwadar PCA, the working interest owners hereby agree to pay to DG (PC), as compensation for non-performance, an amount equal to the value of total unaccomplished work units (the value of 1 work units shall be US$ 10,000 or as specified at the time of invitation to Bid) during relevant phase of the initial term or during the first renewal or second renewal.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL obtained exploration license of Gwadar in 2014 with minimum work commitment of 311 work unit to be performed in the initial term of license period. Consequently, management incurred an expense of Rs 46.829 million on payment of training fund, social welfare and exploration license as compulsory obligation and Rs 19.452 million on finance, internal audit department, system support and E&P division from 2014 to 2019. However, the management failed to discharge work commitment in any work unit in Gwadar Concession which gave rise to compensation for non-performance amounting to Rs 497.600 million (US$ 10,000 per unit x work unit 311 x Rs 160 = 1 US$). This resulted in

wasteful expenditure of Rs 563.581 million due to failure of JV to carry out physical work towards data acquisition, processing, interpretation and other related activities.

Audit is of the view that weak management controls resulted in non-fulfillment of work commitments causing a loss of Rs 563.581 million.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that the security clearance had not been provided in different areas of Baluchistan. Now, FC HQ South had suggested to reschedule activities in Gwadar concession from July 2020 to 2021 due to paucity of FC troops. As per PCA compulsory obligations of Rs 46.829 million had been discharged. The reply is not tenable as block was auctioned in 2014 after obtaining NOC from Ministry of Defence by DG (PC). If there was security problem the block would not have been offered for auction by DG (PC).

The DAC in its meeting held on January 02, 2020 directed the management to get the relevant record along with detail of work units agreed / performed verified from Audit within one week. No further progress was reported till finalization of the report.

Audit recommends to justify the failure to carry out the exploration activity as per commitments of PCA besides improving management controls.

[DP No. 384]

### *2.2.6.22 Avoidable rental expense on Caravans and Generators - Rs 472.792 million*

According to Article 30.1 of Model Petroleum Concession Agreement, the operator shall endeavour to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of Petroleum.

During audit of OGDCL Islamabad for the FY 2018-19, it was observed that OGDCL was JV partner with M/s MOL, PPL, GHPL and POL in Tal Block MOL, being the operator incurred an expense of Rs 472.792 million from 2002

to November, 2019 on account of rent for 34 caravans and 100 KVA Genset with its backup storage tank instead of purchasing these items.

Audit is of the view that weak monitoring by OGDCL resulted in avoidable expense of Rs 472.792 million on rent.

The matter was reported to the PAO in November 2019.

The DAC in its meeting held on January 02, 2020 directed the management to reply to the observation with supporting documents and get it verified from Audit within one week. No further progress was reported till finalization of the report.

Audit recommends to explain the reasons for extra rental expenses. Audit further recommends the PAO to devise mechanism for monitoring the JVs.

[DP No. 452]

### *2.2.6.23 Mis-procurement in hiring of Rotary Wing Transport Services – Rs 436.118 million*

As per Article 13.3 of Petroleum Sharing Agreement, the contractor shall establish appropriate procedures, including tender procedures in consultation with GHPL, for the acquisition of goods and services and the tenders shall be awarded on the basis of open competitive bidding.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL was a JV partner in Indus Offshore Block-G with ENI, PPL and Exxon Mobil, each having equal share of 25%. M/s ENI, being operator of the JV, initiated the process for hiring of Rotary Wing Transport Services (helicopter service) for UDW for Kekra-1 from September 01, 2018 to August 31, 2019. However, M/s ENI specifically mentioned helicopter model (AW-139) while floating the tender advertisement thus restricting open competition. Subsequently, the company issued expression of interest to 18 bidders but request for quotation was issued to only 5 bidders whereas only 3 submitted their proposals. After financial evaluation of financial proposals by the bidders, M/s Gulf Helicopter Co. was declared lowest with the bid of US$ 3.55 million (Rs 436.118 million).

Audit is of the view that non-compliance of PSA led to restricted competition resulting in mis-procurement amounting to Rs 436.118 million.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that the technical specification did not specify any model of the helicopter. Moreover, services were hired by the operators keeping in view the safety standards.

The management in DAC meeting held on January 02, 2020 directed the management to get the record verified from Audit within a week. No further progress was reported till finalization of the report.

Audit recommends the PAO to hold a fact finding inquiry and fix responsibility for award of contract in violation of PSA.

[DP No. 379]

### *2.2.6.24 Cost / time overrun due to mishandling of decanting facility project – Rs 349.444 million*

According to Article 30.1 of Model Petroleum Concession Agreement, the operator shall endeavor to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of petroleum. As per Clause 3(d) of MOU dated April 14, 2014 b/w PARCO, OGDCL and MOL, MOL (operator) shall be responsible for site supervision and PARCO shall provide facilitation as acceptable to PARCO. As per Clause-II (c) of the MoU, consultancy fee was to be included in the total cost and would be borne by MOL / OGDCL as being their representative but PARCO would bear O&M cost of the said facility. Further, as per Clause-II (a), the project was to be completed within six months from the date of award of the EPCC contract.

During the audit of OGDCL for FY 2018-19, it was observed that MOL, OGDCL and PARCO signed an MOU on April 14, 2014 to construct a decanting facility at PARCO refinery by sharing 33.33% cost of the project. OGDCL got the approval of Rs 102.191 million with +/- 7.5% margin from its BoD on February 25, 2014. The project was to be completed before the shutdown program of M/s ARL i.e. January 01, 2016 but it was not completed

till November, 2019. M/s Deloitte, on the basis of its detailed audit, concluded that an amount of Rs 960.047 million was incurred on the project against the estimated cost of Rs 349 million. The increase in cost mainly was due the frequent changes in project such as the size of de-canting sheds, de-canting pumps, increased civil works etc. Further, OGDCL and PARCO management raised following questions:

i) An amount of Rs 365.144 million was included as project related cost incurred by MOL Pakistan, verification of payments had not been provided to project partners;

ii) An amount of Rs 83.455 million was included as project planning drawings and PSS Asia (consultant) work. As per auditors report, the company did not submit the details of engineering packages;

iii) An amount of Rs 32.329 million for project support services should not be included in the project cost by MOL on account of supervisory cost for their services; and

iv) Only 9,000 sq. mtrs was included in BoQ whereas the final asphalted area was 23,000 $m^2$ and MOL made payments for 32,800 $m^2$.

Audit is of the view that weak monitoring and poor project management resulted in cost overrun of Rs 349.444 million.

The matter was reported to the PAO on November 15, 2019.

The DAC in its meeting held on January 02, 2020 directed the Petroleum Division to conduct a fact finding inquiry into the issue and submit its recommendations by February 29, 2020.

Audit recommends implementation of DAC directives.

[DP No. 828]

### *2.2.6.25 Wasteful expense without any exploration activity in Khuzdar Concession - Rs 331.156 million*

According to Clause 3.4 of Khuzdar PCA, the working interest owners hereby agree to pay to DG (PC), as compensation for non-performance, an amount equal to the value of total unaccomplished work units (the value of 1 work unit shall be US$ 10,000 or as specified at the time of invitation to Bid) during relevant phase of the initial term or during the first renewal or second renewal.

During audit of OGDCL FY 2018-19, it was observed that OGDCL obtained the exploration license of Khuzdar North in 2014 with the minimum work commitment of 311 work unit for initial term of license period. Consequently, the management incurred an expense of Rs 47.134 million on payment of training fund, social welfare and exploration licenses as compulsory obligation and Rs 16.95 million on finance, internal audit department, system support and E&P division from 2014 to 2019. However, the management failed to discharge work commitment in any work unit in Khuzdar Concession which gave rise to payment of compensation for non-performance amounting to Rs 267.072 million (US$ 10,000 per unit x work unit 311 x Rs 160 = 1 US$). This resulted in wasteful expenditure of Rs 331.156 million due to failure of the JV OGDCL to carry out physical work for data acquisition, processing, interpretation and other related activities.

Audit is of the view that weak management controls resulted in non-fulfillment of work commitments causing a loss of Rs 331.156 million.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that Khuzdar North E.L was granted to OGDCL on March 21, 2014 for the initial term of three years which expired on March 20, 2017. OGDCL could not execute the committed work due to non-availability of security cover. The renewal of the Khuzdar North license for period from March 21, 2019 to March 20, 2021 was applied. The reply is not tenable as block was auctioned in 2014 after obtaining the NOC from Ministry of Defence by DG (PC).

The DAC in its meeting held on January 02, 2020 directed the management to get the relevant record along with detail of work units agreed / performed verified from Audit within one week. No further progress was reported till finalization of the report.

Audit recommends to justify the failure to carry out the exploration activity as per commitments of PCA.

[DP No. 388]

***2.2.6.26 Avoidable expense on the transportation of water through bowsers – Rs 314.555 million***

According to Article 30.1 of Model Petroleum Concession Agreement, the operator shall endeavor to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of Petroleum.

During audit of OGDCL for the FY 2018-19, it was observed that TAL block was producing 4,000 to 5,000 BPD of water which was being transported to Makori West in bowsers since October, 2014. This water was being used for sub-surface injection at Makori West and the arrangement cost was Rs 433.555 million. In February, 2018 the management approved the project for laying of pipeline for delivery of water to Makori West at a cost of Rs 119 million with completion date of June, 2018. This showed that a substantial amount could have been saved by timely decision making by the operator. Hence, late decision making by the operator resulted in extra expense of Rs 314.555 million.

Audit is of the view that negligence and weak project management by OGDCL resulted in avoidable expense of Rs 314.555 million.

The matter was reported to PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that the water injection volumes gradually increased from 500 BBL in 2014 to 5,500 BBL in 2017. As per need, permanent facility to inject water into disposal well was set-up by MOL in 2018. The reply is not tenable as proper need assessment was not carried out in 2014 which resulted in avoidable expense.

The DAC in its meeting held on January 30, 2020 directed the management to get the stated stance regarding increasing trend in water cut verified from Audit within a week. No further progress was reported till finalization of the report.

Audit recommends the PAO to investigate the reasons for delay in permanent solution and devise mechanism for monitoring the JVs.

[DP No. 676]

### *2.2.6.27 Wasteful expenditure on rental caravans - Rs 265.233 million*

According to Article 30.1 of Model Petroleum Concession Agreement, the operator shall conduct all exploration, exploitation, drilling, development, and production operations in accordance with good international oilfield practices and the principles and standards as laid down in the rules. Consistent with this requirement, the operator shall endeavor to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of petroleum.

During audit of OGDCL, Islamabad for the FY 2018-19, it was observed that the management acquired 79 caravans to accommodate 128 employees of Nashpa field in 2008 on rental basis @ Rs 46,562 per caravan per month and annual expense of Rs 44.141 million. Hence, OGDCL incurred an amount of Rs 529.689 million on account of rent charges till June, 30 2019. Audit observed that the purchase price of these caravans was only Rs 264.157 million, thus, the management incurred extra expense of Rs 265.533 million on rent of these carvans. Since no permanent arrangement for accommodation of employees had been made by the management, further expense of Rs 264.846 million was expected to be incurred till June, 2025 (expected life of reservoir). The management, therefore, should have considered purchasing caravans or constructing residential complex instead of wasting huge amount on rent.

Audit is of the view that poor managerial practices resulted in wasteful expenditure amounting to Rs 265.533 million on account of rent charges.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that the management floated tenders thrice for permanent camp construction during 2016 to 2019 but these remained inconclusive. The 4th case was still under tendering process. The reply is not tenable as the field was operative since 2008 but no concrete effort was made to construct camp on permanent basis till 2016.

The DAC in its meeting held on January 02, 2020 directed the management to provide chronological sequence of efforts made for construction of residential complex with supporting documents since 2010 to date within a week. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for delaying permanent construction of camps besides taking steps to avoid such instances in the future.

[DP No. 838]

***2.2.6.28 Irregular hiring of wire logging services without open competition – Rs 243.33 million***

As per Article 13.3 of Petroleum Sharing Agreement, the contractor shall establish appropriate procedures, including tender procedures in consultation with GHPL, for the acquisition of goods and services and the tenders shall be awarded on the basis of open competitive bidding.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL was JV Partner in Indus G. block with PPL, M/s ENI and Exxon Mobil each having equal share of 25%. M/s ENI operator of the JV, informed that M/s Schlumberger, the lowest bidder for wire hiring services for UDW for Kekra-I declined to provide the service at quoted rates. However, instead of awarding the contract to the 2nd lowest bidder, M/s ENI recommended that the tendering may be discarded and contract may be awarded to M/s Baker Hughes EHO Ltd., at Rs 243.33 million (US$ 2.99 million) as the said party had already worked with them in 2015-16. OGDCL along with GHPL and PPL granted approval for award of work to M/s Baker Hughes EHO in violation of PSA consequently the contract was awarded to the said contractor which was irregular.

Audit is of the view that weak monitoring by the management led to irregular award of contract without open competition.

The matter was reported to the PAO on November 29, 2019. The management in its reply dated December 26, 2019 stated that M/s ENI secured the services from M/s Baker Hughes EHO after M/s Schlumberger declined to offer services for Kekra-I. The reply is not tenable as previous tender of M/s ENI was finalized in 2014-15 whereas the market rates of all drilling services were on the decline as reported by OGDCL management to its BoD hence fresh rates should have been obtained in the instant.

The DAC in its meeting held on January 02, 2020 directed the management to provide supporting record for verification in support of their contention. DAC further directed the management to seek comments from DG (PC) in the light of PSA clauses within a month. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for awarding contract without open competition and to devise mechanism for monitoring the JVs.

[DP No. 449]

### *2.2.6.29 Wasteful expense without any exploration activity in Bela North Concession - Rs 238.839 million*

According to Clause 3.4 of Bela North PCA, the working interest owners hereby agree to pay to DG (PC), as compensation for non-performance, an amount equal to the value of total unaccomplished work units (the value of 1 work unit shall be US $ 10,000 or as specified at the time of invitation to Bid) during relevant phase of the initial term or during the first renewal or second renewal.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL obtained exploration license of Bela North in 2014 with the minimum work commitment of 111 work units in the initial term of license period. Consequently, management incurred an expense of Rs 45.809 million on payment of training fund, social welfare and exploration licenses as compulsory

obligations and Rs 15.46 million on finance, internal audit department, system support and E&P division from 2014 to 2019. However, the management failed to discharge work commitment in any work unit in Bela North Concession which gave rise to compensation for non-performance amounting to Rs 177.600 million (US$ 10,000 per unit x work unit 111 x Rs 160= 1 US$). This resulted in wasteful expenditure of Rs 238.839 million due to failure of OGDCL to carry out physical work for data acquisition, processing, interpretation and other related activities.

Audit is of the view that weak management controls resulted in non-fulfillment of work commitments causing a loss of Rs 238.839 million.

The matter was reported to the PAO in November, 2019. The management in its reply dated December 26, 2019 stated that OGDCL could not execute the committed work due to non-availability of security cover hence, two years extension was applied against time loss. The reply is not tenable as block was auctioned by DG (PC) in 2014 after obtaining NOC from Ministry of Defence. If there was security problem, the block would not have been offered for auction by DG (PC).

The DAC in its meeting held on January 02, 2020 directed the management to get the relevant record along with detail of work units agreed / performed verified from Audit within one week. No further progress was reported till finalization of the report.

Audit recommends to justify the failure to carry out the exploration activity as per commitments of PCA besides improving internal controls.

[DP No. 385]

### *2.2.6.30 Irregular award of contract and non-initiation of action against defaulting contractor – Rs 216.084 million*

As per Article 13.3 of Petroleum Sharing Agreement, the contractor shall establish appropriate procedures, including tender procedures in consultation with GHPL, for the acquisition of goods and services and the tenders shall be awarded on the basis of open competitive bidding. The procedures for such

bidding and the exceptions to bidding in cases of emergency shall meet, and be subject to, all other requirements for tenders set out in this Agreement.

During audit of OGDCL for the FY 2018-19, it was observed that M/s ENI (JV Operator), awarded contract for cementing and pumping services for UDW for Kekra-1 to M/s Schlumberger (Pakistan) at US$ 0.650 million. M/s Schlumberger, however, declined to provide the service but the management did not take action against the defaulting contractor. Instead of inviting bids, ENI awarded contract to M/s Halliburton Worldwide Ltd. Pakistan under farm-in strategy, an already shortlisted contractor by ENI in 2016 for US$ 1.637 million. This resulted in irregular award of contract without open competition amounting to Rs 216.084 million thus causing loss to the JV partners to the tune of Rs 131.084 million [(1.637-.650) * Rs 132/$]

Audit is of the view that weak monitoring resulted in irregular award of work amounting to Rs 216.084 million (US$ 1.637*Rs 132/$) besides non-initiation of action against the defaulting contractor.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that since ENI Affiliate secured the services from M/s Schlumberger in 2016, therefore, no action could be taken against M/s Schlumberger by OGDCL. The reply is not tenable as neither action was taken against defaulting contractor nor fresh tender was floated.

The DAC in its meeting held on January 02, 2020 directed the management to provide the relevant information regarding M/s Schlumberger from M/s ENI for verification. DAC further directed the management to seek comments from DG (PC) in the light of PSA clauses referred in the para within a month. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for irregular award of work and non-initiation of action against the defaulting contractor.

[DP No. 840]

### 2.2.6.31 *Irregular award of contract for hiring of expandable liner hanger - Rs 142.975 million*

As per Article 13.3 of Petroleum Sharing Agreement, the contractor shall establish appropriate procedures, including tender procedures in consultation with GHPL, for the acquisition of goods and services and the tenders shall be awarded on the basis of open competitive bidding.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL was a JV partner in Indus Offshore Block-G with ENI, PPL and Exxon Mobil, each having equal share of 25%. ENI, being operator of the JV initiated process for hiring of expandable liner hanger material for UDW for Kekra-1 from July, 2018 to July, 2019. ENI selected M/s Halliburton Worldwide Ltd. Pakistan for Rs 142.975 million (US$ 889,314) on single source basis. However, despite violation of rules, the management of OGCDL communicated its consent to the operator on July 11, 2018 without any objection regarding cost and hiring without open tender. Furthermore, the rig remained operative for less than three months whereas hanger equipment was hired for a year which was also objectionable.

Audit is of the view that weak monitoring resulted in irregular procurement for Rs 142.975 million in violation of PSA.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that the contract was awarded on single source basis for being critical offshore activity and ultra-deep well. The reply is not tenable as JV partners had agreed to contract rates finalized by M/s ENI in 2014-15 whereas the rates of all drilling services were on downward trend as reported by OGDCL management to its BoD. Hence, fresh bids should have been obtained in the instant case.

The DAC in its meeting held on January 02, 2020 directed the management to get the record verified from Audit and seek the comments from DG (PC) in the light of PSA clauses within a month. No further progress was reported till finalization of the report.

Audit recommends the PAO to fix responsibility for award of contract in violation of PSA and devise mechanism for monitoring the JVs.

[DP No. 378]

### *2.2.6.32 Unauthorized deductions made by M/s ARL - Rs 112.805 million*

According to Articles 1.6 and 2.1 a of Crude Oil Sale Agreement executed on March 30, 1980 between M/s PPL and M/s ARL, being the agreed delivery point, the quantity and quality measured at the loading terminal, Adhi Field is conclusive and binding on all parties.

During audit of OGDCL for the FY 2018-19, it was observed that an amount of Rs 112.805 million was withheld by M/s ARL since 2011 due to quantity and quality dispute. Audit held that un-lawful adjustment by ARL in contravention of COSA resulted in the freezing of JV's revenue and non-recovery of un-authorized deductions by M/s ARL amounting to Rs 112.805 million.

Audit is of view that matter could not be settled due to ineffective decision making of DG (Oil).

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that matter had already been taken up with all working interest owners and it was decided to refer the issue to DG (Oil) for resolution. The reply of the management endorsed the stance of the Audit.

The DAC in its meeting held on January 02, 2020 directed the DG (Oil) to convene a meeting with all stake holders and resolve this issue by February 29, 2020. No further progress was reported till finalization of the report.

Audit recommends to expedite recovery at the earliest besides framing effective mechanism for settlement of disputes.

[DP No. 826]

***2.2.6.33 Loss due to unlawful flaring of natural gas from Bhal Syedan field - Rs 112.101 million***

As per DG (Gas) letter No.NG(III)-16(1)/97-M-MC dated January 21, 1998, flaring of gases be avoided/stopped at different field and all low pressure / flared gases which cannot be used for enhanced oil / gas production through re-injection, injection into gas system after processing, power generation or any other industrial purposes may be disposed of locally for utilization in limestone / brick kilns etc. through competitive bidding in a transparent manner. Proceeds from such sale would be deposited in Government treasury. According to Rule 36 of the Pakistan Petroleum (Exploration and Production) Rules, 1986, holder of a lease shall pay a royalty at the rate of 12.5% of the wellhead value of the petroleum produced and saved.

During audit of OGDCL for the FY 2018-19, it was observed the company entered into contract with M/s King Resort for sale of gas from Bhal Seydan concession area. The contract, however, remained suspended for 18 months from June 2016 to December 2017 and the low-pressure gas at an average rate of 0.05 to 0.08 MMCFD per day cumulatively 217.175 MMCF was flared in violation of the guidelines. This resulted in revenue loss of Rs 99.645 million besides non-payment of royalty of Rs 12.456 million to the provincial government resulting in cumulative loss of Rs 112.101 million besides causing environmental hazard.

Audit is of the view that willful negligence on the part of the management resulted in flaring of gas worth Rs 112.101 million besides damaging the environment.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that M/s King Resort complained of inconsistant quantity and quality of gas and demanded compensation for the loss. In order to avoid loss and litigation, there was no option for OGDCL except to flare the gas till attaining consistent flow behaviour of well. The reply is not tenable as sale of low pressure gas did not guarantee consistency in pressure and even in case of flaring, the cost should have been recovered from the contractor as per agreement.

The DAC in its meeting held on January 30, 2020 directed the management to seek clarification from DG (Gas) / DG (PC) regarding application of flaring policy, 1998 on the said field. No further progress was reported till finalization of the report.

Audit recommends the PAO to fix responsibility for unlawful flaring of gas and ensure recovery of cost of gas along with payment of royalty.

[DP No. 381]

### *2.2.6.34 Loss due to non-initiation of action against contractor – Rs 74.00 million*

As per Terms & Conditions of the contact entered into with M/s Dana Geophysics Pakistan (Pvt) Limited for 3D seismic data acquisition on June 08, 2016, the interested firms was bound to offer performance bond @ 10% of quoted amount in the shape of bank draft / pay order in favor of OPL.

During audit of OGDCL Islamabad for the FY 2018-19, it was observed that OPL (JV Operator), OGDCL and AOC were JV partners in Ratana Development and Production Lease. M/s POL, JV operator, entered into contract with M/s Dana Geophysics Pakistan (Pvt) Ltd on June 08, 2016 for 377 Km$^{3,}$ 3D seismic data acquisition services to be completed up to December 31, 2016 against payment of US$ 7 million. The contractor failed to perform the work due to issues such as conflicts with locals including theft of equipment. The contractor demanded recovery of stolen equipment worth US$ 2.87 million in addition to bonus of US$ 1.386 million with extension in the contract period. On the intervention of DG (PC), the contract was extended up till August 31, 2017 with bonus of US$ 1.386 million. OPL vide letter dated April 11, 2017 asked the contractor to resume the work. However, the contractor still failed to complete data acquisition by the end of extended period but no action was taken by the JV. OGDCL was required to pursue forfeiture of performance guarantee amounting to US$ 700,000 and initiation of action for black listing of the company. However, no such step was taken by the JV.

Audit is of the view that improper monitoring of JV operations by OGDCL resulted in loss of US$ 0.7 million.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that the amendment to contract was executed on June 09, 2017 and project completed on October 05, 2017. About 73% of time was lost due to land issues and local community problems. Actual recording time was only 17% of the total time. The reply is not tenable as the contractor was required to complete the work in specified time and quality standards agreed upon thus undue favour was granted.

Audit recommends to fix responsibility for non-encashment of performance bond and not blacklisting the contractor.

[DP No. 460]

***2.2.6.35 Loss due to non-obtaining of performance guarantee and non-blacklisting of contractor – Rs 55.106 million***

As per terms & conditions of contract No. GMP/SC/17128775, the interested firms were required to submit performance guarantee @ 10% of quoted amount in the shape of bank draft / pay order in favor of PPL.

During audit of OGDCL Islamabad for the FY 2018-19, it was observed that PPL JV operator of Adhi Exploration Lease launched a tender during 2017 for construction, procurement and commissioning services for Adhi Gas Compression Project. Consequently, M/s BST was awarded contract for Rs 551.061 million after approval from OGDCL. However, PPL issued work order to M/s BST without obtaining any performance guarantee. On July 31, 2018, PPL in OCM / TCM meeting informed that M/s BST declined to commence the work and asked for OGDCL consent to award contract to 2$^{nd}$ lowest bidder i.e. M/s GASCO. OGDCL granted approval with the condition to initiate the process of blacklisting of M/s BST. M/s APL however, took no action against the contractor hence, non-obtaining the performance guarantee, black listing as required under the contract caused loss of Rs 55.106 million (@ 10% of contract value of Rs 551.061 million).

Audit is of the view that the management did pursue the case for taking necessary action against M/s BST causing loss to the JV partners.

The matter was reported to the PAO on November 11, 2019. The management in its reply dated December 26, 2019 that letter of award was issued to M/s BST on April 27, 2018 and work was started but the pace of work was slow. As no formal contract was signed by the parties, punitive action could not be taken. The reply is not tenable as contract should have been signed and performance guarantee obtained prior to start of work.

Audit recommends the PAO to conduct inquiry for not obtaining performance guarantee, start of work without formal contract and non-initiating the case for blacklisting.

[DP No. 438]

***2.2.6.36 Irregular award of contract – Rs 170.19 million***

As per Article 3 of Petroleum Sharing Agreement, the contractor shall establish appropriate procedures, including tender procedures in consultation with GHPL, for the acquisition of goods / services and the tenders shall be awarded on the basis of open competitive bidding.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL was a JV partner in Indus Offshore Block-G with ENI, PPL and Exxon Mobil, each having equal share of 25%. M/s ENI, being operator of the JV, initiated the process for hiring tabular running services for UDW for Kekra-1 from July 2018 to July 2019. However, instead of floating fresh tender, the JV operator awarded contract under farm-in strategy to M/s Frank's, the 2$^{nd}$ lowest bidder in 2015 for ENI's global contract. This resulted in irregular award of contract in violation of PSA for Rs 170.19 million (US$ 1.098 million).

Audit is of the view that weak monitoring led to irregular award of contract in violation of PSA.

The matter was reported to the PAO on November 15, 2019. The management in DAC meeting held on January 02, 2020 explained that the job was given to backup contractors M/s Franks International due to some issues with M/s Weatherford.

The DAC in its meeting held on January 02, 2019 directed the management to seek the comments from DG (PC) in the light of PSA clauses referred in the para within a month.

Audit recommends the PAO to investigate irregular award of contract in violation of PSA besides ensuring that Joint Operation Agreement is framed in accordance with the PSA.

[DP No. 423]

### *2.2.6.37 Extra cost due to overcharging of rent for LP compressor – Rs 23.087 million*

According to Article 30.1 of Model Petroleum Concession Agreement the operator shall conduct all exploration, exploitation, drilling, development, and production operations in accordance with good international oilfield practices and the principles and standards as laid down in the Rules. Consistent with this requirement, the operator shall endeavor to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of petroleum.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL proposed to install its own LP compressor, on rent @ US$ 750/day. M/s PPL objected to high rental rates as compared to the market rates and proposed monthly rent @ US$ 450 per day instead of US$ 750/day. OGDCL, however, did not agree and reduced the rent to US$ 600 from January, 2016. Hence charging of rent of Rs 23.087 million (US$ 148,950 @ US$ 600/day less US$ 450/day * 993 days) from January, 2016 to September, 2019 was unjustified which resulted in extra cost to the project.

Audit is of the view that unsound financial management by the company resulted in overcharging of rent amounting to Rs 23.087 million from the JV.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that OGDCL charged rent @ US$ 600/day for LP compressor instead of US$ 750 from February 26, 2016 to June 30, 2018 based on recommendation of TCM / OCM. The reply is

not tenable as higher rates of rent were being charged for old fully depreciated assets despite reservation by PPL.

Audit recommends to explain the reasons for charging excessive rate to the JV besides improving financial control to ensure that operational cost remains economical.

[DP No. 450]

## Receivables Management

### *2.2.6.38 Non-recovery of debts since 2016 – Rs 321,241 million*

As per Clause 6.04 of the GSPA, the buyer of gas shall pay within 30 days of invoice in the designated bank account share of each partners and in foreign exchange within 45 days from the date of receipt of invoice. Similarly, as per COSA, the refinery shall pay within two months from the date of receipt of invoice from each partner of the producing field.

During audit of OGDCL for the FY 2018-19, it was observed that an amount of Rs 321,241 million was outstanding against gas companies and refineries as on June 30, 2019. As per record, an amount of Rs 271,078 million was outstanding against gas companies, power generation companies and Rs 49,812 million against refineries. The outstanding amount against the gas companies increased by 44.58% and 48.86% whereas that against the refineries increased by 6.84% and 67.38% during 2018-19 and 2017-18 respectively.

(Rs in million)

| Sr. No. | Customer | June 30, 2019 | June 30, 2018 | June 30, 2017 |
|---|---|---|---|---|
| 1 | SNGPL | 93,650 | 52,736 | 22,250 |
| 2 | SSGCL | 149,891 | 115,057 | 71,140 |
| 3 | UPL | 12,967 | 9,882 | 4,522 |
| 4 | UCH-II | 13,307 | 6,995 | 3,908 |
| 5 | Engro | 1,170 | 1,097 | 1,050 |
| 6 | FKPCL | 93 | 75 | 123 |
| | **Total Gas** | **271,078** | **185,842** | **102,993** |
| 7 | ARL | 24,056 | 23,571 | 8,190 |
| 8 | NRL | 6,198 | 6,281 | 1,449 |
| 9 | PRL | 5,228 | 4,930 | 713 |
| 10 | PARCO | 6,238 | 4,733 | 2,195 |

| 11 | ENAR | 3,413 | 2,365 | 1,462 |
|---|---|---|---|---|
| 12 | Byco | 4,679 | 4,743 | 1,200 |
| | **Total Refineries** | **49,812** | **46,623** | **15,209** |
| 13 | Others | 351 | 413 | 373 |
| | **Grand Total** | **321,241** | **232,878** | **118,575** |

The management, however, made nominal efforts to recover the outstanding amount which needed justification.

Audit is of the view that poor financial management resulted in non-recovery of outstanding amount of Rs 321,241 million.

The matter was reported to the PAO on November 15, 2019. The management in its reply on December 26, 2019 explained that the increase in trade receivables was primarily due to circular debt phenomenon.

The DAC in its meeting dated January 02, 2020 directed the management to pursue the case through Petroleum Division for early recovery and get the recovered amount verified from Audit within a week. No further progress was reported till finalization of the report.

Audit recommends to recover outstanding amount at the earliest besides improving financial management.

[DP No. 473]

***2.2.6.39 Non-receipt of overdue markup - Rs 169,479 million***

As per Rule 14(l) of Public Sector Companies (Corporate Governance) Rules, 2017, the Chief Financial Officer shall be responsible for ensuring that appropriate advice is given to the Board on all financial matters, for keeping proper financial records and accounts, for maintaining an effective system of internal financial control.

During audit of OGDCL for the FY 2018-19, it was observed that GoP granted Term Finance Certificates (TFCs) for Rs 82,000 million on September 10, 2012 for a period of 7 years to M/s Pakistan Holding (Pvt) Ltd. (PHPL) @ kibor + 1% per annum payable semi-annually with 3 years grace period. The principal portion of these TFCs was to be paid in 08 equal installments starting

from March 10, 2016 and the interest was payable with immediate effect. M/s PHPL, however, stopped payment of interest from September 10, 2014 and got extension in payments of instrument through ECC on October 23, 2017 i.e., from 3 to 6 years. This resulted in non-receipt of Rs 169,479 million (Rs 28,913 million as mark up and Rs 100,663 million as principal installment along with LD worth Rs 39,903 million) from M/s PHPL as on June 30, 2019. Later on, M/s PHPL requested OGDCL to prepare revised term sheet for extension in tenure period from 6 years to 10 years. OGDCL management, however, did not agree to the proposal and requested to release the TFCs in accordance with the original term of the investor agreement.

Audit is of the view that the weak follow up of the matter by OGDCL in ECC resulted in non-receipt of payment amounting to Rs 169,479 million from PHPL.

The matter was reported to the PAO in November, 2019. The management in its reply dated December 26, 2019 stated that the issue of overdue mark up, LDs and principal repayments had been repeatedly taken up with Ministry of Energy and Ministry of Finance.

The DAC in its meeting held on January 02, 2020 directed the management to pursue the case through Petroleum Division for early recovery and get the recovered amount verified from audit within a week. No further progress was reported till finalization of the para.

Audit recommends the PAO to take steps for recovery of outstanding payments.

[DP No. 805]

### 2.2.6.40 *Loss due to non-receipt of insurance claim of Bangali-3 underground blowout – Rs 1,490.892 million*

As per Clause 2(b) of Article-II of Appendix-A Joint Operation Agreement of the model PCA so far as it is reasonably practical and consistent with efficient and economical operation only such material shall be purchased for, or transferred to the Joint Account as may be required for immediate use;

and accumulation of surplus stocks shall be kept to a minimum considering the distance of materials in remote locations and the provisions of any relevant law of Pakistan relating to the importation of material and equipment.

During audit of OGDCL for the FY 2018-19, it was observed that OPL (JV operator) in Bangali lease obtained well insurance in 2013-14 for Bangali-3 well through EFU General Insurance Company from April 01, 2013 to April 01, 2014 for US$ 35 million. Bangali-3 well encountered 3 underground blowouts from April-October, 2014. The total cost to control the blowout was US$ 9.527 million. OPL being the operator, lodged insurance claim, but the underwriters refused to accept it. The JV partners, however, did not initiate any legal action. This resulted in loss of Rs 1,490.892 million (US$ 9.527 million) due to non-receipts of insurance claims of Bangali-3 under blowout.

Audit is of the view the M/s OPL and M/s OGDCL management failed to pursue the matter properly due to which the insurance claim for over US$ 9.00 million could not be received up till September, 2019.

The matter was reported to the PAO on November 15, 2019 but no reply was received till finalization of the report.

In DAC meeting held on January 30, 2020 the management explained that the matter was sub-judice in the court of law, Dubai since July, 2019 and legal action in Pakistan was also under consideration. DAC directed the management to pursue the court case vigorously. No further progress was reported till finalization of the report.

Audit recommends the PAO to fix responsibility for non-pursuance and non-recovery of insurance claim since 2014.

[DP No. 675]

***2.2.6.41 Non recovery of LPS on sale of low pressure gas – Rs 41.254 million***

According to Clause 7.4 & 7.5 of the Low pressure sale gas agreement the buyer shall pay the seller's monthly invoice within 7 days of the receipt of the invoice through bank draft or pay order, if the payment of the buyer is

received within specified time, the amount due shall bear late payment surcharge at the rate of 18% per annum.

During audit of OGDCL for the FY 2018-19, it was observed that the management neither made payments through bank drafts nor recovered LPS from the buyers. The delay on payment ranged from 01 to 858 days. LPS amounting to Rs 41.254 million was outstanding against the defaulters due to minimal efforts in this regard.

Audit is of the view that poor financial management resulted in non-recovery of LPS amounting to Rs 41.254 million.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that the low pressure gas was sold mainly to lime sellers. All efforts were being made for timely recovery of payment including LPS from these companies

The DAC in its meeting dated January 02, 2020 directed the management to undertake an exercise to determine the actual LPS recoveries based on the volume, followed by measures to ensure recovery within one month. No further progress was reported till finalization of the report.

Audit recommends to recover the outstanding amount besides improving internal controls and financial management.

[DP No. 433]

***2.2.6.42 Loss due to undue favour to the contractor - Rs 37.177 million***

As per Clause 6.6 and 7.4 of Gas Sales Purchase Agreement dated April 16, 2013, the buyer shall pay the seller's monthly invoices (including Federal Excise Duty, General Sales Tax and any other tax levied now or in future) within 7 days from the date of invoice through bank draft or pay order.

During audit of OGDCL for the FY 2018-19, it was observed that the management signed gas sale agreement on April 16, 2013 with M/s King Resort at a price of Rs 715/MCF with 10% annual increment in price. The management wrote off Rs 6.229 million on account of receivable from M/s King Resort for

the months of April, June and September 2014. Further, in contravention of contract, the management took number of cheques which were dishonored. The management initiated no action against the buyer for submission of bogus cheques. The contract was terminated on May 25, 2016 due to non-payment and the management claimed a sum of Rs 8.343 million against total outstanding amount of Rs 15.912 million. Thus, a waiver of Rs 7.569 million was granted to M/s King Resort. Moreover, the price of the gas was to be raised to Rs 1,047/MCF after 10% annual increment but it was reduced to Rs 598/MCF by signing an amendment in agreement on January 21, 2018 which resulted in additional loss of Rs 23.379 million to the company from July 2018 to August 31, 2019. Hence, the undue favor to the contractor resulted in a loss of Rs 37.177 million to the company.

Audit is of the view that weak managerial practices resulted in undue favour to the contractor causing a loss of Rs 37.17 million.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that no write off was granted to the buyer as invoice of Rs 15.912 million was issued erroneously instead of Rs 8.343 million. The agreement was terminated due to non-payment but party offered to make payment of all dues and it was renewed at a price of Rs 598 / MCF. The management approved restoration of agreement with the maximum market price. The reply is not tenable as no documentary evidence was provided in support of reply. Further, undue favour was granted throughout the contract period by reducing the receivables and extending the agreement instead of fresh tendering.

DAC in its meeting held on January 30, 2020 directed the Petroleum Division to conduct an inquiry in the matter within two months. No further progress was reported till finalization of the report.

Audit recommends to conduct inquiry to fix responsibility for undue favor to the contractor, in violation of the agreement besides recovering the dues.

[DP No. 472]

### *2.2.6.43 Recurring loss due to retention of land of abandoned wells – Rs 11.31 million*

As per Article 30.1 of Model Petroleum Concession Agreement, the operator shall conduct all exploration, exploitation, drilling, development, and production operations in accordance with good international oilfield practices and the principles and standards as laid down in the Rules. Consistent with this requirement, the operator shall endeavor to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of petroleum.

During audit of OGDCL for the FY 2018-19, it was observed that 19 out of 27 wells of Nandpur / Panjpir field had depleted and only 08 wells of Nandpur were flowing. The depleted wells were either shut down or abandoned during 2001 to 2016 but the management did not de-hire the land of these wells. This resulted in recurring loss of Rs 11.31 million on account of rent of land. The detail of land rent is as under:

(Rs in million)

| **Sr. No.** | **Well Name** | **Hired Land** | | | **Rate per acre per year (Rs)** | **Total Amount** |
|---|---|---|---|---|---|---|
| | | Acres | Kanals | Marlas | | |
| 1 | Bahu | 45 | 03 | 07 | 0.044 | 1.998 |
| 2 | Nandpur | 119 | 06 | 00 | 0.044 | 5.269 |
| 3 | Pangpir | 91 | 07 | 02 | 0.044 | 4.043 |
| | **Total** | **255** | **16** | **09** | | **11.310** |

Audit is of the view that weak internal controls resulted in retention of land causing recurring loss of Rs 11.31 million on account of rent.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that all wells were shut-in w.e.f. October 28, 2019 and operations are being closed by carrying out the decommissioning activities. Plug & Abandon activities at all Panjpir wells (PP No. 1,2,3,4,5,6 & 7) have been abandoned by retrieval of surface facilities. 93 transfer cases from Nandpur to other fields are already in process. 44 Acres of land have been de-hired by now. The reply is not tenable as fields

were shut in 2001 to 2016 but the said fields could not be abandoned up to 2020. Further no supporting document were attached in support of reply.

In DAC meeting held on January 30, 2020 the management explained that 44 acres of land has been de-hired out of 255 acres. Rest of the land will be de-hired after completion of Plug & Abandon campaign of remaining wells. DAC directed the management to expedite the de-hiring process. No further progress was reported till finalization of the report.

Audit recommends to explain the reason for unnecessary retention of land besides improving internal controls.

[DP No. 434]

### *2.2.6.44 Loss of revenue due to installation of out dated plant and short realization of royalty - Rs 2,715.52 million*

As per item E of Schedule-II of GSA dated December 02, 2010, the maximum 3% mole of carbon dioxide were allowed, otherwise gas would be considered Off-Specification. Further, Clause 4.03, states that all Off-Specification gas supplied from Chanda field which buyer takes delivery of pursuant of any Buyer's notice to accept delivery, or agree by Buyer and Seller from time to time, shall be priced at 85% of the notified price.

During audit of OGDCL for the FY 2018-19, it was observed that an old dehydration plant was installed at Chanda field in 2002. However, due to installation of out dated plant, only off spec gas 25,744,553 MMBTU was produced which was sold to SNGPL at a discount of 15% amounting to Rs 813.794 million. Due to sale of off spec gas and non-installation of latest LPG recovery plant OGDCL suffered loss from 2004 to 2013.

Furthermore, installation of LPG recovery plant of latest technology would have produced additional LPG by 3,000 M. ton per year. The installation of old LPG plant resulted in additional revenue loss of Rs 1,800 million and additional royalty loss of Rs 101.72 million i.e. a total loss of Rs. 2,715.52 million on account of discount royalty and less extraction of LPG.

Audit is of the view that weak project management and non-installation of new LPG plant resulted in loss of Rs 2,715.52 million on account of less revenue and royalty.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that Fimkassar LPG plant was redundant and OGDCL relocated it to Chanda. Further, the DG (Gas) had directed that both parties should agree upon 15% discount on off-spec gas and conclude the pending GSA. Accordingly, the GSPA was signed by both parties and approved by OGRA. The reply was not tenable as the management should have installed plant with latest technology to maximize its profit and Governments share of royalty.

The DAC meeting held on January 30, 2020 the management explained that discount was applicable due to higher $CO_2$ contents since 2004 to 2013 which was subsequently rectified by installation of membrane system. There was no discount applicable after November, 2013. DAC directed the management to get the stated facts verified by Audit within a week. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for poor project management causing huge losses to the public exchequer.

[DP No. 800]

### *2.2.6.45 Loss due to unlawful flaring of gas - Rs 2,065.957 million*

As per DG (Gas) letter No.NG(III)-16(1)/97-M-MC dated January 21, 1998, flaring of gases be avoided at different field and all low pressure which cannot be used for enhanced gas production through re-injection, injection into gas system after processing, power generation or any other industrial purposes may be disposed of locally for utilization in limestone / brick kilns etc. through competitive bidding in a transparent manner. Proceeds from such sale would be deposited in Government treasury read with Rule 36 of the Pakistan Petroleum (Exploration and Production) Rules, 1986 holder of a lease shall pay a royalty at the rate of 12.5% of the wellhead value of the petroleum on produced and saved.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL obtained lease of Sinjhoro field in 2009 and flared gas at an average rate of 3.0 to 4.0 MMCFD cumulatively without prior approval of DG (PC). This resulted in unlawful flaring of 12,775 MMCF of gas from 2009 to 2019 causing a loss of Rs 1,836.406 million and non-payment of royalty (to the extent flared) amounting to Rs 229.550 million to the Provincial Government.

Audit is of the view that negligence of the management resulted in unlawful flaring of gas revenue loss of Rs 2,065.957 million.

The matter was reported to the PAO in September, 2019. The management in its reply dated November 04, 2019 stated that the plant was commissioned in January 2013. Due to non-specification, membrane skid was relocated from QadirPur Plant to Sinjhoro in December 2015. Thereafter, after four press tenders, the contract was awarded to M/s Hi-Tech in August 20, 2019. The reply is not tenable as the production was started in 2009 and gas was flared continuously without approval from DG (PC).

The DAC in its meeting held on January 30, 2020 directed the management to seek comments from DG (Gas) on the issue of permeate gas in the light of audit observation and flaring policies. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for unlawful gas flaring without approval.

[DP No. 803]

### *2.2.6.46 Irregular deposit of Workers' Participation fund in FBR – Rs 59,427.263 million*

The workers participation fund law had become ineffective due to devolution of power to legislate on the subject upon the Provincial Governments hence, the payment was not covered under the existing labor laws. Moreover, the Provincial Governments (except Sindh) had not enacted any law on the subject.

During audit of OGDCL for the FY 2018-19, it was observed that in pursuance of 18$^{th}$ amendment, the management was required to deposit the WPPF to the respective provincial governments. However, the management

continue to issue cheque in favor of Commissioner, Inland Revenue, Islamabad even after devolution of powers to provinces to legislate on this matter. This resulted in irregular deposit of WPPF amounting to Rs 59,727.263 million under different head of accounts to FBR from 2011 to 2019 instead of depositing in WPPF account.

Audit is of the view that poor financial management resulted in irregular payment of WPPF amounting to 59,727.263 million to irrelevant authority.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated November 2019 stated OGDCL, the Companies Profits (Workers' Participation) Act, 1968 has not been altered, repealed or amended, therefore as per the Article 270 AA (6) of the Constitution of Pakistan, said Act still holds the field and the action of WPPF Trust is in accordance with the provision of the WPPF Act, 1968. This matter is still in the Supreme Court of Pakistan vide petition No.1604 of 2018. The matter shall finally be settled upon decision of the Supreme Court of Pakistan. The reply was not tenable as the cheques were issued in the name of Commissioner, Inland Revenue, Islamabad under different heads of accounts instead of depositing it in relevant head of account, further, there was no evidence wether the said amount had been received by the WPPF trust.

The DAC in its meeting held on January 30, 2020 directed the management to take up the matter with FBR / WPPF to ensure that funds had been transferred to Worker Participation Fund in specific Head of Account. Finance Division observed that the accounting procedure for the purpose may be observed in letter and spirit and in case of any discrepancy the same may be reviewed for corrective action. No further progress was reported till finalization of the report.

Audit recommend PAO to inquire the issuance of cheques to Commissioner Inland Revenue instead of relevant head of accounts besides ensuring deposit in WPPF trust.

[DP No. 836]

### 2.2.6.47 *Loss due to sale of off-spec gas at a discounted price – Rs 4,596.729 million*

As per OGRA minimum specification for natural gas, it must not contain carbon dioxide mole over 3%. Keeping in view the minimum specification of OGRA gas quality. OGDCL and SNGPL vide Ministry of Energy, (Petroleum Division) memo No. NG(I)-2(52)/09 dated May 17, 2018 agreed in case of off spec gas and reasonable discount keeping in view the commitment of OGDCL to make necessary arrangement w.r.t. improving quality of gas as per OGRA approved specification.

During audit of OGDCL for the FY 2018-19, it was observed that Nashpa block was discovered in 2005 and started commercial production in May 2009 under early production facility. The management, did not install $CO^2$ removal plant and sold off spec gas to SNGPL at a discount of 10% from 2009 to 2018. The delay in installation of $CO^2$ plant resulted in revenue loss of Rs 4,596.729 (Rs 4,020.838 million plus Royalty of Rs 575.591 million) during the last four years.

Audit is of the view that poor financial management resulted in loss due to sale of Off-Spec gas at a discounted price of Rs 4,596.729 million

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that Nashpa wells were drilled from 2009 to 2013. Bidding was carried out but bidder refused to undertake the project due to law and order situation. The case was re-tendered and the plant was in operation since February, 2018. Recently, the Ministry intervened and the agreement was expected to be finalized very soon. The reply is not tenable because the field started production in 2009 but the supply of off specification gas continued till Feb 2018. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for delay in installation of plant for removal of $CO^2$ to avoid discount on off spec gas.

[DP No. 841]

### *2.2.6.48 Mis-procurement due to prequalification of contractor*

According to Rule 15 of PPRA Rules 2004, procuring agency may engage in pre-qualification of bidders in case of services, civil works, turnkey projects and in case of expensive and technically complex equipment. Moreover, such prequalification shall solely be based on the ability of the interested parties to perform that particular work satisfactorily.

During audit of OGDCL for the FY 2018-19, it was observed that management was making procurement of items like valves (gate, ball, check and globe), wellhead assembly, seamless steel casing pipes, PDC / Roc Bits and nozzles, liner hanger, down hole completion equipment's, X-Mass Tree and Seamless pipeline etc. from pre-qualified contractors. However, price of the steel fluctuated on daily basis which meant that the contractors had included inflationary impact for three years of the contract in the quoted prices of these items. Furthermore, items for which prequalification was made were not shelf items and were manufactured on receipt of orders. Furthermore, the items were of routine nature therefore prequalification of contractors under rule 15 of PPRA rules was unjustified.

Audit is of the view that poor procurement management resulted in pre-qualification of bidders in violation of PPRA rules.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated after completion of all procedural formalities, the vendors were pre-qualified for a period of three years and the notice was uploaded on OGDCL Web site. The biggest advantage of pre-qualification was the reduction in lead time as compared with the routine CB mode case. The reply is not tenable as PPRA did not allow the prequalification beyond one year for routine purchases. It was only allowed in those projects which were to be continued for more than one year and very technical in nature. No further progress was reported till finalization of the report.

Audit recommends to justify pre-qualification of contractors for routine procurement of items besides improving procurement management.

[DP No. 830]

**Procurement related irregularities**

***2.2.6.49 Irregular award of contract for hiring of security services - Rs 1,256.086 million***

According to Rules 12(2) & (3) of PPRA Rules, 2004, all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. Further as per Rule 42 of ibid, a procuring agency shall only engage in direct contracting if the procurement concerns the acquisition of spare parts or supplementary services from original manufacturer or supplier as no other alternatives exists. As per Clause 12.1 and 27.1 of the instruction to the bidder, the bidder shall furnish a bid bond equivalent to 2% and performance bond equivalent to 10% of contract value within 15 days of receipt of notification of contract award.

During audit of OGDCL for the FY 2018-19, it was observed that the management awarded contract for provision of security for seismic / drilling operations in KPK / FATA to M/s FC NWFP Security Services Pvt. Ltd (FCSS) for a period of three years at a cost of Rs 1,256.086 million on July 06, 2018. However, the contract was awarded on direct contracting / single source basis without open competition. Further, the Managing Director waived off 2% bid bond amounting to Rs 23.5 million and 10% performance bank guarantee amounting to Rs 125.608 million at the request of the bidder thus leaving the company without any remedy in case of breach of contract.

Audit is of the view that poor procurement management resulted in violation of rules which led to irregular award of contract amounting to Rs 1,256.086 million.

The matter was reported to the PAO on November 6, 2019. The management in its reply dated December 26, 2019 stated that army issued security model / SOP for E&P companies working in KPK and Baluchistan. Due to this OGDCL hired the services of FCSS on single source basis after the approval of MD / CEO. Further, it was not obligatory to get bid bond as per PPRA Rule 25. Therefore, when M/s FCSS showed its inability to provide bid bond and performance bond, exemption in this regard was obtained from BoD. The reply is

not tenable as M/s FCSS was registered as a private limited company and retired army personal were running the company therefore, exemption from PPRA could not be granted. Further, in case of bid bond and performance bond, both were part of bid as per Clause 27 & 31. Therefore, exemption from these was not allowed under OGDCL Procurement Manual as well as PPRA Rule.

The DAC in its meeting held on January 01, 2020 directed the management to share the M/s FCSS, HR and technical profile. No further progress was reported till finalization of the report.

Audit recommends to investigate the matter for irregular procurement with a view to fix responsibility on person(s) at fault.

[DP No. 348]

***2.2.6.50 Unjustified expenditure on upgradation of Production Data Management System – Rs 53.391 million***

As per Daily Review Meeting (DRM) held on April 11, 2014, MD / CEO directed to implement system of real time data representation from major fields on the pattern of systems installed in MP&NR by SNGPL / SSGCL and software currently used may be upgraded for maximum utilization and necessary accessibility. As per Para 4 of TORs prepared for up gradation of PDMS suite, one of the objectives of the suite was data retrieval from SCADA.

During audit of OGDCL for the FY 2018-19, it was observed that the management awarded a contract for upgradation of Production Data Management System (PDMS) to capture and display real time data to authorized users from all the fields to M/s Schlumberger Seaco Inc, Islamabad on June 25, 2015 on single source basis for Rs 53.391 million (US$ 533,912). Resultantly, ten concurrent licenses were obtained which were alternatively used by 28 fields to feed data in the system. However, the said project was not being optimally used and system of real time data representation from all fields was not achieved which caused infructuous expenditure of Rs 53.391 million. It was further noticed that licenses for the software expired in April, 2019 but its renewal was not carried out which would result in restricted functionality.

Audit is of the view that weak managerial controls in OGDCL resulted in non-achievement of objectives of PDMS thus rendering the expenditure of Rs 53.391 million on its purchase infructuous.

The matter was reported to the PAO on November 6, 2019. The management in its reply dated December 26, 2019 stated that installation of SCADA was not economically feasible at most of the OGDCL fields due to high capital cost and was only functional at Uch gas field which would be linked with PDMS in future. SCADA system was also being installed at Kunnar, KPD and Nashpa fields and its integration with PDMS was also included in the scope of work of the relevant contractor. The reply is not tenable as the purpose to procure the PDMS was to implement system of real time data representation from major fields as well as automated data retrieval from SCADA / DCS installed at fields.

The DAC in its meeting held on January 01, 2020 directed the management to submit the revised reply regarding activation of PDMS at major fields and get it verified from Audit within a week.

During verification dated January 16, 2020 the management stated that installation of SCADA was not economically feasible at most of the fields and provided copies of reports generated from PDMS showing parameters available to management for decision making. Audit contended that activation of PDMS at major fields was required to be completed. No further progress was reported till finalization of the report.

Audit recommends fixing responsibility for unjustified expenditure besides improving managerial controls for proper implementation of PDMS so that informed decision could be made by the company.

[DP No. 349]

### *2.2.6.51 Irregular award of contract - Rs 11.475 million*

As per Rule 2 of Procedure for Procurement of Consultancy Services dated December 15, 2016 of OGDCL, the company shall not hire a consultant for an assignment in which there is possibility of conflict of interest. If a

consultant has been engaged by the procuring agency to provide goods or works for a project, it shall be disqualified from providing consulting services for the same project. Similarly, a consultant should not be hired for any assignment which, by its nature, may be in conflict with another assignment of that consultant. Further, as per Para 220.5 of Code of Ethics for Professional Accountants, where conflict of interest poses a threat to one or more of the fundamental principles, including objectivity, confidentiality or professional behaviour, that cannot be eliminated or reduced to an acceptable level through the application of safeguard.

During audit of OGDCL, Islamabad for the FY 2018-19, it was observed that the management awarded contract for physical verification and reconciliation of stores and spares inventory to M/s A.F. Ferguson & Co., on May 15, 2018 at an estimated cost of Rs 11.475 million. Audit noted that M/s A.F. Ferguson & Co., was also the statutory auditor of the company for the same period i.e. FY 2018-19 and hence there was clear conflict of interest in provision of consultancy services for physical verification and reconciliation of stores and spares inventory of OGDCL.

Audit is of the view that negligence of the management resulted in irregular award of the contract in violation of Procurement of Consultancy Services of OGDCL.

The matter was reported to the PAO on November 6, 2019. The management in its reply dated December 26, 2019 stated that the matter was referred to legal department of OGDCL which informed that there was no conflict of interest as both exercises would be independent of each other. The reply is not tenable as stores and inventory are essential part of financial statements on which the statutory auditors had to give their opinion hence, clear cut conflict of interest was involved.

The DAC in its meeting held on January 01, 2020 directed the management to seek clarification from SECP regarding the subject para within one month. No further progress was reported till finalization of the report.

Audit recommends to investigate the reasons for irregular award of contract and fix responsibility on the persons(s) at fault.

[DP No. 347]

### *2.2.6.52 Delay in installation of Petroleum Economics Evaluation Program resulting in wasteful expenditure - Rs 30.458 million*

As per Para 3.2 of TORs for installation, configuration, customization and integration of Petroleum Economics Evaluation Program, it was proposed to customize the software as per OGDCL requirement and that the vendor should customize the software and fiscal models for GoP's applicable Rules & Petroleum Policies for mining leases, D&P leases, Rules of 1986, 2001, 2009 & 2013 as well as Petroleum Policies of 1994, 1997, 2001, 2009 and 2012. Further, as per Para 3.3 of TORs, the vendor was required to integrate the solution with already installed software at OGDCL.

During audit of OGDCL for the FY 2018-19, it was observed that the management awarded a contract for procurement of Petroleum Economics Evaluation Program (PEEP) to M/s Schlumberger on August 28, 2018 with delivery period of 30 days for Rs 30.458 million (equivalent to US$ 217,559). IT steering committee of OGDCL, in its meeting dated January 07, 2016, directed to get multi user license equipped with Decision Tool kit and Regional Fiscal Library of software. Resultantly, TORs were prepared and the case was cleared for procurement by the Indent Review Committee meetings during the period from April, 2016 to March, 2018. It was also worth mentioning that the same software was purchased in 2003 but its licence expired in 2009. In 2014 the management decided to renew the licence of the software but that decision was not implemented. Hence, despite spending such a huge amount, the software was not made fully functional, its integration with currently installed solution at OGDCL was not completed and it was not customized as per TORs. This was not being used optimally.

Audit is of the view that weak internal control resulted in delayed installation of PEEP due to which desired objectives could not be achieved rendering the amount of Rs 30.458 million wasteful.

The matter was reported to the PAO on November 6, 2019. The management in its reply dated December 26, 2019 stated that installation of PEEP software was completed as per approved final scope of work and deliverables had been provided to the company.

The DAC in its meeting held on January 01, 2020 directed the management to get the stated facts verified along with reasons for inactive period of 9 years and LD charges recovered from the contractors from Audit within a week. No further progress was reported till finalization of the report.

Audit recommends to ensure complete installation of the software besides investigating reasons for delay.

[DP No. 346]

### *2.2.6.53 Decreased seismic data acquisition due to delay in supply of Multi Geophone strings*

According to General Condition No. 18.2 of contract, any unjustified prolonged delay by the contractor in the performance of his delivery obligation shall render the contract / purchase order liable to any or all of the sanctions such as imposition of liquidity damages, forfeiture of performance security and / or termination of the contract for default. Furthermore, as per Special Clauses 11 and 12 of the contract, liquidity damages on late delivery of items at specified rates would be imposed as well as all charges for amendments / extension in LC would be recovered from supplier.

During audit of OGDCL for the FY 2018-19, it was observed that the management floated a tender for procurement of multi geophone strings as seismic parties were demanding these items continuously to meet their operational requirements and no stock was available in store. Consequently, a contract was awarded to M/s Xi'an Senshe Electronics, China for procurement of 15,000 multi geophone strings along with spares on October 22, 2018 for Rs 240 million (US$ 1.600 million). The LC was opened on January 24, 2019 and the date of delivery was fixed for May 24, 2019 i.e. after 4 months. However, on April 04, 2019 supplier requested for extension in shipment date till June 24, 2019 which was accepted by the management. On June 17, 2019, the supplier requested for another extension for delivery till October 24, 2019. Management accepted extension in delivery date till September 24, 2019 at the supplier's expense. It is pertinent to mention that this equipment was intended to be used during the period 2017-20 but much of that period had already elapsed at the time of floating of tender. Consequently, 2D seismic data acquisition of

only 1,324 line KMs was carried out during the year as compared to 2,073 line KMs during previous year showing a decrease of 36%.

Audit is of the view that poor procurement planning and contract management resulted in unjustified extension in shipment of multi geophone strings which led to reduced seismic data acquisition by upto 36%.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that sufficient geophones were available with field seismic parties therefore, field seismic activities did not suffer. The case for procurement of multi geophone strings was initiated on January 16, 2018 and extension in shipment date was granted according to relevant clauses of contract.

The DAC in its meeting held on January 01, 2020 directed the management to get the verification regarding confiscation of performance guarantee within a week and provide the latest position regarding black listing of the contractor along with details of data acquisition during the same tenure by OGDCL parties and contractors.

During verification dated January 16, 2020 the management provided evidence of encashment of performance guarantee of Rs 24.968 million. However, position regarding black listing of the contractor along with details of data acquisition during the same tenure was not provided. No further progress was reported till finalization of the report.

Audit recommends to investigate the matter for reduced data acquisition with a view to fix responsibility on the person for poor procurement management.

[DP No. 373]

**HR / Employees related irregularities**

***2.2.6.54 Loss due to non-stoppage of pay after dismissal from service – Rs 3.796 million***

According to Para 206(d) of Chapter XIV of OGDCL Employees Service Rules, 2002, salary means the monthly amount paid by the company to an employee for his service.

During audit of OGDCL for the FY 2018-19, it was observed that an employee was dismissed from service on December 30, 2014 due to misconduct involving use of fake graduation degree submitted at the time of appointment. However, salary of the employee was stopped on August 15, 2017 after lapse of two years and seven months. This resulted in irregular payment of salary as well as bonus of Rs 3.796 million for the period from December, 2014 to July, 2017.

Audit is of the view that weak financial controls resulted in irregular payment of salary and bonus amounting to Rs 3.796 million.

The matter was reported to the PAO on November 6, 2019. The management in its reply dated December 26, 2019 stated that employee had been dismissed and a fact finding inquiry had been initiated. Further, a suit had been filed against the employee for recovery of overpaid amount. The reply is not tenable as the employee was dismissed on December 30, 2014 and management took four years to initiate steps for recovery of outstanding dues.

The DAC in its meeting held on January 01, 2020 directed the management to pursue the case in court as well as share outcome of the fact finding inquiry with Audit within one month. No further progress was reported till finalization of the report.

Audit recommends to fix the responsibility for causing loss to the company as well as pursue court case besides improving financial controls to avoid such lapses in future.

[DP No. 352]

### *2.2.6.55 Non-Compliance of BoD's directives regarding fixation of salary bands of contract employees*

As per Para 206/6.2 of BoD meeting held on October 25, 2018, the BoD directed the management to determine the salary bands / ceiling in the case of contract officers. Further, as per Notification No. AAO102-06 dated June 15, 2016, salary bands of regular employees had been fixed grade wise.

During audit of OGDCL for the FY 2018-19, it was observed that more than 3,125 officers and staff were working on contract basis as on June 30, 2019

in the company. However, the management did not comply with the directions of BoD regarding determination of the salary bands / ceiling for contract employees despite lapse of eleven months. A comparison of basic pay of contract employees with maximum pay band of regular employees showed excess payment of salary to contract employees than to regular employees. It is worth mentioning that employees regularized after January 01, 2016 onwards would be entitled to Gratuity and Provident Fund instead of Pension similar to contract employees who were entitled to Gratuity after completion of 2 year service. Due to non-fixation of salary bands of contract employees there was huge disparity of salary among regular and contract employees as detailed in **Annex-4**.

Audit is of the view that negligence of the management resulted in disparity in salary bands of contract employees with regular employees.

The matter was reported to the PAO on November 6, 2019. The management in its reply dated December 26, 2019 stated that while deliberating the presentation regarding salary capping for contract officers, the HR&NC of the Board in its 42nd meeting held on June 24-25, 2019 decided to consider the matter as part of overall HR reforms to be undertaken with the help of a reputed HR consultant. The progress in the matter would be informed as soon as it was finalized.

The DAC in its meeting held on January 01, 2020 directed the management to implement the BoDs directives within two months. Further increase in salary of contractual employees may be tagged with clear cut benchmarks. No further progress was reported till finalization of the report.

Audit recommends to hold inquiry to fix responsibility of this non-compliance and to recover salaries paid in excess of restrictive grades. Furthermore, salary bands of all contract employees be fixed within the range of their grades and be approved from BoD at earliest.

[DP No. 357]

### *2.2.6.56 Irregular payment of salary and allowances to contract employees - Rs 62.971 million*

According to BoD Notification No. Board-01-06/5/2/1097-2 dated January 11, 2010, management committees were to be constituted to assess

performance of the officers on contract and their requirement in the company. BoD vide Notification No. AAO103-15 dated January 14, 2011, directed to regularize the contractual officers employed during the period from January 28, 2002 to August 26, 2009 and to evaluate all contractual officers upto EG-V before their induction into regular cadre through a committee on case to case basis. Further, as per Para 37 of OGDCL Employees Service Rules, 2002, all appointments in the company shall be made on contract basis on such terms and conditions of service as may be mutually agreed upon between the employee / employees and the company. Contract appointment against executive posts shall be made by the Board of Directors in the manner prescribed by these rules.

(i) During audit of OGDCL for the FY 2018-19, it was observed that the management appointed Corporate Planning Officer on contract basis on a consolidated salary of Rs 0.075 million per month which was later increased to Rs 0.712 million per month in July, 2019. The officer joined duty on August 26, 2005 and his employment contract was regularly extended with salary enhancement. On December 22, 2011, the Recruitment Department, in compliance of BoD directives, issued the officer an offer of regular appointment as Corporate Planning Officer in EG-III. The officer, however, did not accept the offer and continued working on contract basis. Meanwhile, all other contract employees were regularized. This not only rendered the retention of the said officer as irregular but also resulted in disparity between salary of said employee and regular employees. Hence, this lapse by the management resulted in irregular payment of pay and allowances of Rs 61.171 million for the period from January, 2012 to August, 2019 in violation of rules.

Audit is of the view that poor internal controls and weak HR management resulted in irregular payment of Rs 61.171 million on account of pay and allowances in violation of BoD's directives.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that contractual officer had the vested right to accept or reject the offer of regularization of service and to continue to work on contractual basis. The reply is not tenable as upon refusal of the officer to be regularized, the management should had terminated the

services of the said officer upon expiry of his contract. Further, irrational increase in his pay upto 850% needs to be justified.

The DAC in its meeting held on January 01, 2020 directed the management to produce the report of committee constituted to assess the performance / requirement of employees and all other relevant record for verification within a week.

During verification dated January 16, 2020 the management provided documents showing constitution of committee and its recommendations. Audit contended that management should have implemented BoD's directives as well as committee's recommendations for regularization of contract employee. No further progress was reported till finalization of the report.

Audit recommends to investigate the matter with a view to fix responsibility for non-compliance of BoD directives besides improving internal controls and HR management.

(ii) During audit of OGDCL for the FY 2018-19, it was observed that an Executive Director (Joint Ventures) was appointed on contract basis for a period of three years on June 15, 2009. As per the appointment letter, lump sum pay of the officer was fixed at Rs 0.800 million per month. The contract period was extended from time to time on same terms. However, during extension of contract on December 15, 2015 and December 15, 2017 each for two years period, monthly salary was increased to Rs 1.5 million per month. In the meantime, pay structure of the officer was also converted to that of regular employees on May 20, 2011 and annual increments on fixed salary were also given in violation of contract terms, resulting in irregular payment of annual increments of Rs 1.8 million during the last two years.

Audit is of the view that an amount of Rs 1.8 million had been paid in excess of entitlement in violation of contract agreement.

The matter was reported to the PAO on November 29, 2019. The management in its reply dated December 26, 2019 stated that BoD on August 26, 2015 resolved that benefits approved by the Board specifically for the contract officers and notified from time to time were validly granted to such officers as a

matter of policy and amendment in the employment contract were not required to give effect to policy decisions of the Board. The reply is not tenable as increment was allowed in contravention to the employment contract and undue benefit was granted to the employee.

The DAC in its meeting held on January 01, 2020 directed the management to develop a standard contract employment policy with clear and pre-defined terms of employment within two months. No further progress was reported till finalization of the report.

Audit recommends to implement the DAC directives besides recovering the excess payments.

[DP Nos. 462 & 376]

***2.2.6.57 Violation of criteria of requisite qualification for direct recruitment of Executives Director (HR)***

As per Rule 31 of OGDCL Employees Service Rules, 2002, a candidate for appointment to a post either by direct recruitment or by transfer must possess the requisite educational qualification or experience as prescribed in Management Guide Schedule-III, Chapter-IV of Rules ibid. Further, as per Para 31(b) of Service Rules, 2002, initial appointment as provided in these rules shall be made on the recommendation of Departmental Selection Committee after vacancies have been advertised in the leading Urdu and English Newspapers of the country.

During audit of OGDCL for the FY 2018-19, it was observed that management published an advertisement for recruitment of Executive Directors, HR in newspapers on February 04, 2018 and July 04, 2019. However, the qualification of Master's Degree at least 2$^{nd}$ Division preferably Social Sciences required under the above mentioned Management Guide Schedule was not advertised but lesser qualification i.e., graduate degree preferably in Business / Public Administration or Human Resource Management was mentioned in the advertisement. The ambiguity regarding educational qualification would result in selection of less qualified individuals for specialized positions. This resulted in violation of criteria of requisite qualification for direct recruitment of Executive Director (HR).

Audit is of the view that poor HR management resulted in reduction in academic qualification rendering the recruitment exercise doubtful.

The matter was reported to the PAO on November 29, 2019. The management in its reply dated December 26, 2019 stated that the position of ED (HR) was advertised twice and qualification of graduate degree was mentioned in the advertisements. However, the officer appointed against the above advertisement was no more in company as his employment contract was terminated during probation i.e. November 08, 2019. The reply is not tenable as advertisements with less qualification was violation of Rules.

The DAC in its meeting held on January 01, 2020 noticed that in the absence of HR Manual and recruitment Policy, decisions were being taken on adhoc and event to event basis which did not reflect the prudent corporate policy and the employment was being made in policy vacuum. DAC directed the management to follow the Management Guide Schedule in letter and spirit along with preparation of updated HR Manual and recruitment policy. No further progress was reported till finalization of the report.

Audit recommends the PAO to conduct inquiry and fix responsibility for publication of advertisement with less qualification in violation of rules.

[DP No. 374]

### *2.2.6.58 Irregular expense on salary due to retention of staff over and above sanctioned strength - Rs 24.412 million*

According to Para 41 of OGDCL Employees Service Rules 2002, the Managing Director shall have full powers, subject to budgetary provisions, to create / abolish all posts up to and including EG-VII.

During audit of OGDCL for the FY 2018-19, it was observed that against sanctioned posts of eighty (80) officers, excess employees of one hundred and fifty (150) were working. Hence, seventy (70) officers were working over and above the sanctioned strength for the period from July 1, 2018 to June 30, 2019. This resulted in irregular expenditure on their pay and allowances of Rs 24.412 million (approx.).

Audit is of the view that weak administrative controls resulted in retention of excess staff than the sanctioned strength.

The matter was reported to the PAO on November 6, 2019. The management in its reply dated December 26, 2019 stated that sanctioned strength of HR Department was 80 officers whereas 49 posts were supernumerary and 37 positions were for staff. Again this total head count of 166, 150 employees were working. The reply is not tenable as sanctioned strength of HR department should had been revised keeping in view the Supernumerary posts.

The DAC in its meeting held on January 01, 2020 directed the management to get supernumerary posts regularized from BODs within two months. No further progress was reported till finalization of the report.

Audit recommends to investigate the matter and to regularize the excess staff from the competent authority.

[DP No. 361]

### *2.2.6.59 Irregular promotions without requisite qualifications*

According to Clause 5(2) of OGDCL Service Regulation, 1994, only those employees who possess the qualification and experience as laid down for the purpose of promotion to a post shall be considered by the Departmental Promotion Committee. Moreover, according to Clause 9 an employee possessing such minimum qualification as prescribed shall be eligible for promotion to a post for the time being reserved under these regulations for departmental promotion in the higher scale or group, in accordance with the prescribed manner.

During audit of OGDCL for the FY 2018-19, it was observed that the management ignored the minimum prescribed qualifications laid down in rules while granting the promotion to officers. Hence the BoD and Departmental Promotion Committee considered those officers for promotion who did not possess the qualifications required for the posts of General Manager (Production & Process), Chief Accountant, Accountant and Chief, Joint Venture. Thus all these promotions were irregular detailed as follows:

| Sr. No. | Nomenclature of Posts | Prescribed qualification | Qualification of the promoted candidates |
|---|---|---|---|
| 1 | General Manager (Production & Process) (E-VIII) | Degree in Petroleum Engineering or Higher Degree from Foreign University or<br>M.Sc. in Earth Science. | M.Sc. Chemistry |
| 2 | Chief Accountants (EG-VI) | CA/ACMA/MBA (Fin.)/M.com | B.Com |
| 3 | Accountant EG-III | CA(Inter)/ICMA-IV/MBA(Fin)/M.Com/B.com | BA/B.E.D/BSc(Math)/ MA Economics |
| 4 | Chief JV & BD (EG-VI) | B.Sc. Engineering Mechanical/Electrical/ Petroleum Reservoir/M.Sc. Earth Sciences | MBA/LLM |

Audit is of the view that irregular promotions were granted due to nepotism by the management.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that in case of GM Plant and Process, Petroleum Engineering Degree or MSc Earth Sciences was required for the post of GM Production, not for GM Plant and Process. When Service Rules, 1994 were framed this post did not exit, therefore, no qualification for this post was prescribed. Further, the promoted officer had qualification of MSc Chemistry which was relevant to Chemical Engineering and both degrees could be considered equal. In the remaining cases the management stated that as per policy circulated by HR the qualification bar was lifted for promotion upto the level of Chief (EG-VI) and an officer securing 65% marks was eligible for promotion.

The DAC in its meeting held on January 01, 2020 showed its concern and directed the management to review all the promotions from 1994 in the light of Clause 5(ii) OGDCL Service Regulations, 1994. No further progress was reported till finalization of the report.

Audit recommends to implement the DAC directives.

[DP No. 377]

### *2.2.6.60 Non-recovery of House Building Loan and House Rent Advance – Rs 52.385 million*

According to Para 224 of OGDCL Employees Service Rules, 2002, the company shall deduct installments on account of recovery of the amount of an advance and interest thereof from the member's salary. Such deduction shall commence from the second month payment of salary to the member after the payment of the amount of advance to him and, in the case of a member on extra-ordinary leave, from the second monthly payment of his salary to him after his return to duty from such leave.

During audit of OGDCL for the FY 2018-19, it was observed that the management did not recover house building loan of Rs 67.445 million from 62 inactive employees for period ranging from July, 2017 to May 2019. Moreover, the management did not recover house rent advance of Rs 7.066 million from 12 employees despite lapse of considerable period of time. This resulted in non-recovery of outstanding advances of Rs 74.511 million *(***Annex-5).**

Audit is of the view that weak internal controls resulted in non-recovery of loan amount from employees.

The matter was reported to the PAO in November, 2019. The management in its reply dated December 26, 2019 stated that in case of house building loan an amount of Rs 30.415 million had been recovered, Rs 8.362 million was under recovery, Rs 6.578 million would be adjusted on maturity of death claims, Rs 1.088 million was sub-judice and Rs 21.002 million was being considered either for recovery from sureties or through litigation. The management further, stated that an amount of Rs 2.334 million had been adjusted and for Rs 2.051 million legal notices were issued whereas balance of Rs 2.681 million were under recovery. Out of total amount Audit verified recovery of Rs 19.862 million.

The DAC in its meeting held on January 01, 2020 directed to recover / adjust the balance amount, pursue the sub-judice cases, expedite the insurance claims and get the record regarding recovery of advance verified from audit within three days. DAC further directed to strengthen internal controls regarding house rent advances to reduce risk for the company.

During the verification dated January 16, 2020 the management provided copies of adjustment of Rs 2.334 million which has been verified by Audit. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for delay in recovery of outstanding dues besides making recoveries and improving internal controls.

[DP Nos. 355 & 372]

### *2.2.6.61 Loss due to short deduction of income tax from employees – Rs 34.031 million*

According to Section 149 of Income Tax Ordinance, 2001, the management was required to deduct income tax at source from the salaries of employees according to the tax slabs applicable for the year 2018-19.

During audit of OGDCL for the FY 2018-19, it was observed that income tax of Rs 39.512 million was less deducted from the annual gross salary of 129 employees. During discussion management replied that company was allowed to adjust withheld tax amount under other heads as well as adjust tax credits admissible under Sections 61, 62, 63 and 64 of Ordinance ibid after obtaining documentary evidences from the employees. However, complete documentary evidence in respect of tax adjustment and tax credits was not produced. This transpired that income tax of Rs 39.512 million was deducted less from salaries resulting in loss to the Government.

Audit is of the view that negligence of management and weak financial management resulted in short deduction of income tax amounting to Rs 39.512 million.

The matter was reported to the PAO on November 06, 2019. The management in its reply dated December 26, 2019 stated that income tax was deducted as per tax slabs. The proof for allowing the tax credit was in line with the provisions of Section 62 & 63 of Income Tax Ordinance 2001. Further, record of 21 employees was provided to audit team for verification of the same. Audit contended from this tax adjustment of Rs 5.481 million of 21 employees had been reconciled however, working for tax credit for investment in each was

required for reconciliation. Similarly, detail of tax adjustment / tax credit in remaining 108 cases was not provided.

The DAC in its meeting held on January 01, 2020 directed to get the supporting record verified from Audit regarding tax adjustment / tax credit within a week.

During verification dated January 16, 2020, the management provided documents of tax adjustment and tax credits. Audit contended that complete documents be provided to Audit for verification. No further progress was reported till finalization of the report.

Audit recommends to implement the DAC directives.

[DP No. 351]

### *2.2.6.62 Unjustified expenditure on club membership - Rs 27 million*

As per Para 93(c) of OGDCL Employees Service Rules, 2002, nothing in this rule shall apply to sports activities and membership of recreation clubs. Further, according to OGDCL's notification No. Board/01-06/1437 dated November 01, 2012, the facility of club membership to all officers on contract and regular basis from General Managers and above is allowed with the admission / membership fee of any one club to be paid by OGDCL on actual basis. However, monthly subscription fee and all other charges are to be paid by the officers concerned on their own.

During audit of OGDCL, Islamabad for the FY 2017-18, it was observed that management provided club membership facility to 27 officers for an amount of Rs 27 million. These officers were provided membership by name instead of corporate membership i.e., by designation. Fifteen of these employees for whom Rs 15 million was paid for club membership proceeded on retirement or left the company service during 2012-2019. These employees, however, were allowed to keep the club membership even after leaving the company. Therefore, expenditure on provision of individual club membership was not justified and this policy needed to be reviewed by the Board.

Audit is of the view that due to defective club membership policy of the company, the expense of Rs 27 million had gone waste.

The matter was reported to the PAO on November 4, 2019. The management in its reply dated December 26, 2019 stated that OGDCL operated under the Companies Ordinance, 1984, together with other rules/regulations applicable to it without referring to the Government rules/ instructions. Accordingly, the BoD approved the facility of club membership to all officers. The reply is not tenable as the employees were allowed to keep the club membership even after leaving the company. Therefore, expenditure on provision of individual club membership was not justified and the policy needed to be reviewed by the Board.

The DAC in its meeting held on January 01, 2020 directed the management to submit the case regarding provision of corporate membership of employees to the BoDs for consideration within two months. No further progress was reported till finalization of the report.

Audit recommends to revisit the policy of club membership and include policy of corporate membership so that company may retain the club membership after the retirement of the employee.

[DP No. 464]

### *2.2.6.63 Non-deduction of income tax on sale of vehicles to employees below the fair market value – Rs 8.916 million*

According to Section 13(11) of Income Tax Ordinance, 2001, where, in a tax year, property is transferred or services are provided by an employer to an employee, the amount chargeable to tax to the employee under the head "Salary" for that year shall include the fair market value of the property or services determined at the time the property is transferred or the services are provided, as reduced by any payment made by the employee for the property or services

During audit of OGDCL, Islamabad for the FY 2018-19, it was observed that 80 vehicles valuing Rs 111.317 million were sold to employees for Rs 19.996 million on book value which was much lower than the fair market

price of these vehicles whereas considering a value of 50% of cost price, as the fair market value of these vehicles came to Rs 55.658 million. Therefore, the management was required to determine fair value and deduct income tax as prescribed under Section 13(11) of ibid from the employee as withholding agent. Hence, non-deduction of income tax resulted in a revenue loss of Rs 8.916 million (Rs 55.658 million - Rs 19.996 million = Rs 35.662 * 25%) to government exchequer.

Audit is of the view that due to weak financial control, income tax of Rs 8.916 million on vehicles sold to the employees had not been deducted on fair market value.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 explained that OGDCL had issued a notification to determine fair market value and tax recoveries had been effected in 61 cases whereas remaining 19 cases were in process at the moment. The management provided copies of pay slips for the month of June, 2019 of 48 employees. However, detailed working regarding deduction of tax in each was required to be provided to Audit for verification.

The DAC in its meeting held on January 01, 2020 directed the management to get the record verified from Audit and finalize recovery in remaining 19 cases verified from audit within a week. No further progress was reported till finalization of the report.

Audit recommends to implement the DAC directives.

[DP No. 461]

**Corporate Social Responsibility**

***2.2.6.64 Less payment of CSR Fund and interest loss since 2010 – Rs 4,316.65 million***

As per Clause-I (Part-II) of OGDCL BoD approved CSR policy on June 15, 2010 which was circulated vide letter No. AAO/102-16(CSR) dated November 09, 2015, at least 1% of annual pre-tax profit of the Company will be allocated for CSR activities in each fiscal year (including PCA obligation).

During audit of OGDCL for the FY 2018-19, it was observed that the management did not contribute 1% of net profit to Corporate Social Responsibility Fund as per CSR policy approved by OGDCL BoD in 2010. Moreover, allocated fund was also surrendered by treating it lapsable budget. This resulted in less contribution to the fund amounting to Rs 4,316.65 million from 2009 to 2019 as detailed here under:

(Rs in million)

| Sr. No. | Year | Gross Profit | Net Profit before Taxation | 1.5% contribution for CSR | Actual Contribution | Less Contribution to CSR Fund |
|---|---|---|---|---|---|---|
| 1 | 2009-10 | 100,622.335 | 88,552.753 | 885.53 | 419.350 | 466.18 |
| 2 | 2010-11 | 102,728.490 | 90,982.204 | 909.82 | 164.650 | 745.17 |
| 3 | 2011-12 | 138,306.253 | 133,082.414 | 1,330.83 | 234.180 | 1,096.65 |
| 4 | 2012-13 | 158,432.480 | 146,808.406 | 1,468.08 | 678.860 | 789.22 |
| 5 | 2013-14 | 176,072.804 | 172,349.905 | 1,723.50 | 896.450 | 827.05 |
| 6 | 2014-15 | 131,966.911 | 127,025.453 | 1,270.25 | 827.080 | 443.17 |
| 7 | 2015-16 | 87,889.549 | 80,507.387 | 805.07 | 1,723.000 | (917.93) |
| 8 | 2016-17 | 95,004.186 | 89,137.462 | 891.38 | 1,270.000 | (378.62) |
| 9 | 2017-18 | 121,479.743 | 112,626.761 | 1,126.27 | 788.097 | 338.17 |
| 10 | 2018-19 | 167,061.563 | 176,559.413 | 1,765.59 | 858.000 | 907.59 |
| | **Total** | **1,279,564.314** | **1,217,632.158** | **12,176.32** | **7,859.667** | **4,316.653** |

Audit is of the view that OGDCL management failed to follow relevant rules which resulted in less payment of CSR fund amounting to Rs 4,316.321million since 2009 to 2019 besides loss of interest.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that the budget of CSR was contributed as per policy of the company approved by the BoD. The reply is not tenable as no documentary evidence regarding contribution / actual expense and surrender of CSR fund was shown to Audit.

The DAC in its meeting held on January 30, 2020 directed the management to get the stated facts regarding allocation/utilization verified with supporting documents from Audit within a week. No further progress was reported till finalization of the report.

Audit recommends to explain the reasons for short payments besides depositing the same in CSR fund at the earliest.

[DP No. 753]

### *2.2.6.65 Irregular charging of cost of free gas facility to CSR Fund – Rs 2,353.239 million*

According to Clause 1 (Part-II) of OGDCL CSR Policy, 2010, sector-wise allocation of CSR budget requires approval from the CSR council. The main areas are health, education / training, water supply/water resources, civil amenities including parks and places of public utility, physical infrastructure including roads, streets, bridges, culverts, water channels and electrification.

During audit of OGDCL for the FY 2018-19, it was observed that the management made an expense from CSR fund for supply of free gas to the residents of Pirkoh and Loti fields in Baluchistan for Rs 743.059 million and Rs 1,610.180 million respectively during 2013-14 to 2015-16. The supply of free gas, however, was not covered under the above mentioned rules resulting in irregular expenditure of Rs 2,353.239 million in violation of CSR policy.

Audit is of the view that weak internal controls and poor financial management resulted in irregular expenditure of Rs 2,353.239 million.

The matter was reported to the PAO on September 26, 2019. The management in its reply dated November 11, 2019 stated that the free gas facility was provided to the locals of Pirkoh and Loti fields as per decision taken in meeting held on March 29, 1992 and conveyed by the Ministry vide letter dated June 20, 2008. The reply is not tenable as the CSR policy was approved in 2010 whereas free gas facility was being granted since 1992. Moreover, supply of free gas to one concession area created discrimination amongest rest of the concession areas.

The DAC in its meeting held on January 30, 2020 directed the management to place the matter before the BoD for consideration. No further progress was reported till finalization of the report.

Audit recommends PAO to investigate the matter regarding irregular expense from CSR fund besides depositing the cost of free supply of gas in CSR trust fund.

[DP No. 431]

### *2.2.6.66 Irregular expenditure on rent of tractor and ambulance – Rs 40.268 million*

As per Para 8.1.1. of Purchase Manual of OGDCL, all requirement of goods and services over Rs 2.00 million will be press tendered, inviting sealed bids under appropriate bidding procedure i.e. single stage single envelope, single stage two envelope, two stages two envelopes or two stages bidding procedures etc. which will be opened by the Tender Opening Committee (ToC) comprising of indenting and SCM department.

During audit of OGDCL for the FY 2018-19, it was observed that the management hired 10 tractors @ Rs 36,000 per tractor per month for supply of drinking water and two ambulances @ Rs 59,000 per ambulance per month for providing drinking water and medical services to local public at Loti gas field from 2012-13 to 2018-19 without open competition. Hence, the management incurred irregular expense of Rs 40.268 million from CSR fund on rent charges of these vehicles. Had the management procured these vehicles the total cost to the company would been restricted to less than Rs 15 million. Hence, the management incurred additional expense of Rs. 25.268 million. Moreover, the management initiated installation of 04 RO plants in 2013-14 at a cost of Rs 20.00 million for drinking water but the same could not be operationalized till December, 2019.

Audit is of the view that poor procurement management resulted in irregular payment of Rs 40.268 million on account of rent charges.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that the services were hired through advertisement in local newspaper in 2015. The lowest bidder quoted rate of Rs 145,000 per tanker per month against the monthly rent of a tractor @ Rs 36,000. Hence the previous practice was continued. The reply is not tenable as rented tractors and ambulances were continued to be used for providing water violating the PPRA rules despite installation of RO plants.

The DAC in its meeting held on January 30, 2020 directed the management to follow the PPRA Rules or to get its exemption from the relevant

forum within a month. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for irregular procurement besides improving procurement management.

[DP No. 802]

**Others**

***2.2.6.67 Delay in development of discovered fields from 1989 to 2016 – Rs 69,401.789 million***

Article 30.1 of Model Petroleum Concession Agreement states that the Operator shall conduct all exploration, exploitation, drilling, development, and production operations in accordance with Good International Oilfield Practices and the principles and standards as laid down in the Rules. Consistent with this requirement, the Operator shall endeavor to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of Petroleum.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL discovered 12 fields since 1989 to 2016 having reservoirs of 2.993 million BBL of crude oil and 83.526 BBTU of natural gas. The company however, delayed development of these fields therefore production from these fields could not be started up till 2019. This resulted in potential loss of revenue of Rs 69,401.789 million.

Audit is of the view that negligence of the management resulted in non-development of fields resulting in as loss of Rs 69,401.789 million.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that some fields had been developed, some could not be developed due to unviable circumstances and security reasons. The reply is not tenable as no supporting documents were provided in support of reply.

The DAC in its meeting held on January 30, 2020 directed the management to expedite / review the process of development of fields for production considering the viability. No further progress was reported till finalization of the report.

Audit recommends PAO to investigate the matter with a view to fix responsibility besides improving performance of regulators to avoid such instances in the future.

[DP No. 424]

### *2.2.6.68 Loss due to operation of uneconomical fields - Rs 47,749.652 million*

According to Article 30.1 of Model Petroleum Concession Agreement, the operator shall endeavor to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of Petroleum.

During audit of OGDCL for the FY 2018-19, it was observed that company suffered heavy losses in 37 fields from 2012-13 to 2018-19 due to incurring huge expenses and less revenue. The management however, did not initiate any corrective measure to improve the working of these fields, thus causing a loss of Rs 47,749.560 million to the company.

Audit is of the view that poor operational management by the company resulted in a loss of Rs 47,749.652 million.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that overall the fields are in profit on the basis of commingling. The reply is not tenable as each field should have been evaluated individually basis to have proper cost control. Revenue should have been allocated on individual field basis but the expenses were not allocated proportionately. The proper cost system should have been implemented to have proper cost control. No further progress was reported till finalization of the report.

Audit recommend the PAO to investigate the matter with a view to fix responsibility besides improving management practices.

[DP No. 446]

### *2.2.6.69 Extra cost due to slow activity of OGDCL seismic parties – Rs 18,394.609 million*

As per Article 30.1 of Model Petroleum Concession Agreement , the operator shall conduct all exploration, exploitation, drilling, development, and production operations in accordance with good international oilfield practices and the principles and standards as laid down in the Rules. Consistent with this requirement, the operator shall endeavor to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of Petroleum.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL had 05 seismic parties to carry out the seismic survey of different areas. The parties had capacity to carry out more than 9,000 linear / Sq. Kms per annum. However, annual activity of these parties was continuously going down. Resultantly per linear / Sq. Kms cost increased as compared to previous years as detailed below:

(in million)

| Year | Survey conducted | | 2D per L. KMs cost | | 3D per Sq. Kms cost | | Excess Cost | |
|---|---|---|---|---|---|---|---|---|
| | 2D LKms | 3D Sq Kms | US$ | (Rs) | US $ | Rs | 2D Rs | 3D Rs |
| 2014-15 | 5,430 | 1,918 | 4,927 | 517,335 | 16,162 | 1,697,010 | - | - |
| 2015-16 | 5,336 | 3,459 | 5,515 | 576,317 | 11,890 | 1,242,505 | 308.235 | - |
| 2016-17 | 4,034 | 1,153 | 13,682 | 1,298,148 | 23,050 | 2 186,984 | 3,703.764 | 1,349.413 |
| 2017-18 | 2,073 | 792 | 25,379 | 3,670,503 | 29,207 | 4,585,499 | 6,647.849 | 2,150.522 |
| 2018-19 | 1,324 | 620 | 23,298 | 3,750,978 | 14,181 | 2,283,141 | 4,001.167 | 233.659 |
| | **Total Extra expense Rs 18,394.609 = (14,661.015+3,733.594)** | | | | | | **14,661.015** | **3,733.594** |

Hence, idle payment to the employees was made against less amount of work conducted by the parties causing a loss of Rs 18,394.609 million during last three years. The slow activities of the parties resulted in outsourcing of the data acquisition activity.

Audit is of the view that weak internal control and HR management resulted in higher seismic survey cost causing loss of Rs 18,394.609 million

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that the main reason for increase in the cost was deployment of the seismic parties into security sensitive areas and hilly terrain in 2014-15, 2015-16. The reply is not tenable as high progress was achieved in 2015-16 and the targets were assigned by BoD keeping in view the relevant situation which the parties could achieve by 50% only causing exorbitant per KM cost. No further progress was reported till finalization of the report.

Audit recommend PAO to carry out the fact finding inquiry for higher cost on seismic survey besides improving internal control and HR management.

[DP No. 448]

### *2.2.6.70 Loss due to flaring of Gas and non-payment of royalty - Rs 12,131.20 million*

As per Rule 20(1) of Pakistan Petroleum (Exploration and Production) Rules 1986 and Flaring Gas Guidelines 2016, the operator shall not flare natural gas but shall use it commercially or for recycling. If natural gas is not so used or not planned to be so used, the Working Interest Owners shall negotiate an arrangement making it available to the President or its designee free of cost at the downstream flange of the gas / oil separation facilities.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL continued to flare 43,038 BBTU of natural gas worth Rs 10,783.289 million at 05 different fields. The management, however, neither got prior approval form the relevant authorities i.e. the President or its designee DG (PC), nor made arrangements for its commercial use. Consequently, royalty amounting to Rs 1,347.911 million could not be paid due to flaring of the gas. This resulted in a loss of Rs 12,131.20 million besides environmental hazards.

Audit is of the view that poor managerial practices resulted in a loss of Rs 12,131.20 million on account of flaring of gas and non-payment of royalty.

The matter was reported to PAO on November 15. The management in its reply dated December 26, 2019 stated that gas was flared intermittently for smooth operation at different fields. The reply is not tenable as no prior approval for flaring of gas was obtained from regulator. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for unlawful flare of gas causing revenue loss to the public exchequer besides taking remedial steps.

[DP No. 422]

### *2.2.6.71 Non deposit of sale proceeds of low pressure gas into Government Treasury - Rs 4,666.609 million*

As per DG (Gas) letter No.NG(III)-16(1)/97-M-MC dated January 21, 1998, it has been decided all low pressure gases which cannot be used for enhanced oil / gas production through re-injection, injection into gas system after processing, power generation or any other industrial purposes may be disposed of locally for utilization in limestone / brick kilns etc.; through competitive bidding in a transparent manner. The proceeds from such sale would be deposited in Government treasury.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL sold low pressure gas to 8 different companies for CNG, power generation, resorts and lime kilns etc., during 2000-01 to 2018-19. The company collected sales proceed amounting to Rs 4,666.609 million against the sale of low pressure gas, which was to be deposited into the Government Treasury as per policy referred to above. The management, however, failed to deposit the sale proceeds to the Government in violation of above mentioned rule.

Audit is of the view that poor financial management resulted in non-deposit of sale proceed amounting to Rs 4,666.609 million to the Government.

The matter was reported to the PAO on November 15, 2019. The management in its reply in December 26, 2019 stated that the sale of low pressure gas was done through open competitive bidding process. OGDCL operated as per terms agreed in the PCA and applicable policy. The reply is not

tenable as sale revenue from low pressure gas was to be deposited in Government treasury as per policy referred to above.

The DAC in its meeting held on January 02, 2020 directed the management to seek clarification from DG (Gas) / DG (PC) on the issue in the light of the Policy issued in 1998 within one month. No further progress was reported till finalization of the report.

Audit recommends to deposit the outstanding amount along with LPS at the earliest besides fixing responsibility for the irregularity and taking remedial measures to avoid such instances in the future.

[DP No. 428]

### *2.2.6.72 Loss due to unlawful gas flaring and non-payment of Royalty - Rs 4,505.617 million*

According to Para B of Flaring Gas Guidelines, 2016, the operator shall not flare natural gas but shall use it commercially or for recycling. If associated gas is not so used or not planned to be so used, the working interest owners shall negotiate on arrangement making it available to the President or its designee free of cost at the downstream flange of the gas /oil separation facilities.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL flared 14,563 MMCF of gas @ 0.70 MMCFD from its Nashpa field during the period from May 2010 to January 2015. However, no approval for flaring of gas was obtained from the President as required. Furthermore, Royalty of Rs 505.562 million on the flared gas was not paid by OGDCL. This resulted in a loss of Rs 4,045.216 million to Government revenue besides environmental hazards.

Audit is of the view that weak management controls resulted in loss of Rs 4,550.868 million due to unlawful flaring of gas and non-payment of royalty.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that to ensure safe and smooth operations, flare network system was an essential part of processing facilities which use residual / utility gas (flare gas) to keep the flare ignited round

the clock to meet any emergency shutdown requirements. The reply is not tenable as prior approval was required for flaring as per policy.

DAC in its meeting held on January 30, 2020 directed the management to get the relevant record regarding net production, sales and plant utility verified from Audit within a week. No further progress was reported till finalization of the report.

Audit recommend the PAO to investigate unlawful flaring of gas with a view to fix responsibility besides improving supervision of E&P companies.

[DP No. 425]

### *2.2.6.73 Loss due to curtailment in production – Rs 2,391.335 million*

According to Article 30.1 of Model Petroleum Concession Agreement, the operator shall endeavor to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of Petroleum.

During audit of OGDCL for the FY 2018-19, it was observed that company suffered loss of US$ 15,329,073 in 4 fields from November 23, 2018 to February 02, 2019. It was further noticed that production from these plants was curtailed due to some technical faults. However, no detail of technical faults and remedial steps taken were provided to Audit. The detail of curtailment is as under:

| Fields | Production Curtailment | | | Revenue Loss (US $) | | | Total US $ |
|---|---|---|---|---|---|---|---|
| | Oil (BBL) | Gas (MMCF) | LPG (Tons) | Oil | Gas | LPG | |
| KPD – TAY | 22,219 | 386 | 1,340 | 1,179,938 | 1,006,126 | 592,837 | 2,778,899 |
| Kunnar | 38,974 | 0 | 13 | 1,694,791 | 0 | 6,497 | 1,701,288 |
| Nashpa | 86,921 | 341 | 1,474 | 5,959,126 | 981,977 | 661,321 | 7,602,425 |
| TOC | 75,720 | 0 | 0 | 3,246,461 | 0 | 0 | 3,246,461 |
| **Total** | **223,834** | **727** | **2,827** | **12,080,316** | **1,988,103** | **1,260,655** | **US $ 15,329,073** |
| **Total Loss in Rupees @ Rs 156 per US $** | | | | | | | **Rs 2,391,335,388** |

Audit is of the view that poor operational management resulted in loss of Rs 2,391.335 million due to curtailment in production.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated November 26, 2019 stated that the company's

production was curtailed due to furnace oil stock pile up issue at refineries. Consequently, company operated its fields on reduced flow either by shut-in of wells or choke down of wells. The reply of the management is not tenable as the refineries were bound to lift the crude oil as per allocation.

DAC meeting held on January 30, 2020. The management explained that curtailment in production was due to refusal to receive crude oil by refineries. DAC referred the matter to Petroleum Division for resolution at policy level. No further progress was reported till finalization of the report.

Audit recommends to improve the COSA by inserting penalty clause in case of failure to accept the product by respective refineries.

[DP No. 439]

### *2.2.6.74 Loss due to unlawful compression and sale of LPG from Toot field - Rs 1,936.214 million*

As per Clause 6.6 of Gas Sales Purchase Agreement dated 16 April 2013, the buyer's facilities shall have provision to flare the gas during the period of non-utilization or of temporary shutdown. The price of such flared gas shall be payable by the buyer to the seller.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL sold low pressure gas to M/s Tariq Lime since 2007 at rates much lower than market rate. The buyer was involved in unlawful compression as reported by OGRA, due to which supply of low pressure gas remained suspended from October 23, 2018 to January 01, 2019. Complaints for unlawful compression were reported by field by security guard and some locals. OGDCL requested OGRA on June 01, 2019 to grant a license and also allow supply of low pressure gas to it. Apparently, management was supplying CNG in the garb of low pressure gas amounting to Rs 620.454 million thus not only facilitating unlawful compression but also causing a loss of Rs 1,315.076 million to the public Exchequer by selling gas at reduced rates. This resulted in loss of Rs 1,936.214 million (from 2007 to 2019)

Audit is of the view that connivance of management resulted in unlawful compression and sale of gas at lower rates.

The matter was reported to the PAO on November 15, 2019. The management in its reply in December 26, 2019 stated that M/s Tariq Lime was allowed to use gas in lime kiln. The complaint of compression was received through OGRA vide its letter dated October 17, 2018. M/s Tariq Lime submitted an undertaking that they would not perform any compression activity without getting license from OGRA. Hence, the gas supply was restored on January 18, 2019. The reply is not tenable as no action on the complaints from security guard and locals was taken. Further supply was restored by obtaining undertaking without removing the compression facility from the site.

The DAC in its meeting dated January 02, 2020 directed the DG (Gas) to inquire into the matter regarding compression of low pressure gas for the CNG Station without license from OGRA within two months. No further progress was reported till finalization of the report.

Audit recommends that Petroleum Division and OGRA may jointly refer the case to FIA for investigation at toot field as well as other fields.

[DP No. 834]

### *2.2.6.75 Recurring loss due to uneconomical operation of fields – Rs 1,024.514 million*

As per Article 30.1 of Model Petroleum Concession Agreement, the operator shall endeavour to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of Petroleum. As per OGDCL BoD's advice January 03, 2019 an exercise should be taken to rationalize operation of depleting fields and progress thereof be shared before the end of 3$^{rd}$ quarter of on-going financial year.

During audit of OGDCL for the year 2018-19, it was observed that Pirkoh, Nandpur and Bahu gas fields were being operated un-economically where management could not even recover the Human Resource cost. The fields were depleted with the passage of time but there was no long term strategy to absorb the HR cost of surplus employees by transferring them on the sites / fields despite of clear direction by BoD. This resulted in recurring annual loss of Rs 1,024.514 million as detailed follows:

(Rs in million)

| Sr. No. | Name of Field | Officer | | Staff | | Total | HR Cost | Revenue 2017-18 | Total Loss |
|---|---|---|---|---|---|---|---|---|---|
| | | Perman-ent | Contr-act | Per-manent | Con-tact | | | | |
| **1** | **2** | **3** | **4** | **5** | **6** | **7 = (3 to 6)** | **8** | **9** | **10=(8-9)** |
| 1. | Pirkoh Gas Field | 26 | 3 | 296 | 91 | 416 | 988.089 | 9.13 | 978.759 |
| 2. | Nandpur and Panjpir Gas Field | 9 | 0 | 44 | 44 | 97 | 150.873 | 112.694 | 38.179 |
| 3. | Bahu Gas Field | 0 | 0 | 2 | 19 | 21 | 7.576 | 0 | 7.576 |
| | **Total** | **35** | **3** | **342** | **154** | **688** | **1146.538** | **121.824** | **1,024.514** |

Audit is of the view that weak operational management and negligence resulted in loss of Rs 1,024.541 million.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated that in order to curtail the financial losses of the said gas fields, several attempts such as de-hiring of vehicles / land, minimizing other expenditures and rationalization of manpower were exercised. The reply is not tenable as all the above explanation shows the weak management control which must have been exercised in the instant case to safeguard the public interest.

The DAC meeting held on January 30, 2020 the management explained that 100% employees of Bahu gas field had been moved out whereas P&A campaign was under process for Nand Pur and Punj Pir fields. In case of Pirkoh 30 employees had already been moved out while rest of the local employees would be gradually decreased. DAC directed the management to get the stated facts verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for delay in decision making and weak managerial control.

[DP No. 443]

### *2.2.6.76 Loss due to irregular additional Off-Spec discount on natural gas – Rs 372.330 million*

As per Clause 4.03 of GSA between OGDCL and SNGPL dated December 02, 2010, OGDCL agreed to deliver, all off specification gas to

supplier from Chanda oil field which buyer takes delivery of pursuant of any Buyer's notice to accept delivery, or agree by Buyer and Seller from time to time, shall be priced at 85% of the notified price.

During audit of OGDCL for the FY 2018-19, it was observed that OGDCL installed LPG recovery plant at Chanda field in 2002 for recovery of LPG from natural gas. However, the company could not recover 100% LPG hence 25,744,553 mmbtu off spec natural gas was supplied to SNGPL from May 05, 2005 to November 2013. It was further observed that SNGPL claimed additional discount of Rs 372.330 million on the supply of off spec gas. The irregular additional claim by SNGPL was accepted by OGDCL resulting in a loss of Rs 372.330 million.

Audit is of the view that poor operational management resulted in sale of off spec gas at additional discount amounting to Rs 372.330 million.

The matter was reported to the PAO on November 15, 2019. The management in its reply dated December 26, 2019 stated discount @ 15% was applied due to higher contents of $CO^2$ which were more than 3% of sale gas up to November, 2013 till commissioning of membrane tubes. The reply is not tenable as OGDCL was already giving 15% discount due to sale of off spec gas therefore, further discount on $CO^2$ content was not justified.

DAC in its meeting held on January 30, 2020 directed the management to get the figures of discount reconciled from Audit within a week. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for giving additional discount besides taking immediate remedial measure to avoid such instances in the future.

[DP No. 444]

### *2.2.6.77 Misplacement of original documents of land 18.14 acre of indusial area of Karachi*

As per Rule 14(l) of Public Sector Corporate Governance Rules 2017, the Chief Financial Officer shall be responsible for ensuring that appropriate advice is given to the Board on all financial matters, for keeping proper financial

records and accounts, for maintaining an effective system of internal financial control.

During audit of OGDCL for 2018-19, it was observed that original record relating to 18.14 acres of land purchased in 1963 and 1980 situated at Korangi Industrial Area, Karachi was misplaced but corrective action had not so far been taken by the management in this regard. The details of plots for which the original record was not available with management was as under:

| Sr. No. | Location | Area in Acres | Year of purchase | District Province | Remarks |
|---|---|---|---|---|---|
| 1 | Tabular yards Plot 17, Sector 29, Korangi Township, Korangi Industrial Area, Karachi 1978 | 2.53 Acres 12,245 Sq. Yd | 1980 | Karachi, Sindh | Original file misplaced during shifting of RO Office, Karachi |
| 2 | Korangi Base Store / Work Shop logging base store plot no.3, 4, 18 & 19 | 15.61 Acres 75,556 Sq. Yds. | 1963 | | |
| | **Total** | **18.14 Acres 87,801 Sq. Yds.** | | | |

Audit was of the view that original record / files relating to costly land should have been kept in safe custody of senior responsible officer instead of junior staff which had not been done in the instant case and needs to be justified.

The matter was reported to the PAO in November 2019. The management in its reply dated December 2019 stated that the matter had also been taken up with concerned authorities for issuance of duplicate ownership documents after obtaining the approval of competent authority.

The DAC in its meeting held on January 02, 2020 directed the management to inquire the matter and get the ownership documents at the earliest and improve internal controls. No further progress was reported till finalization of the report.

Audit recommend to fix responsibility for misplacement of original record in 1979 and 1991 besides taking remedial measures to safeguard the interest of the company.

[DP No. 441]

## 2.3 Pakistan Petroleum Limited

### 2.3.1 Introduction

Pakistan Petroleum Limited (PPL) is one of the oldest exploration and production (E&P) companies in the country. The company was incorporated on June 05, 1950 after the promulgation of Pakistan Petroleum Production Rules, 1949. The principal activities of the company are exploration, development and production of Pakistan’s natural reserves of oil and gas.

PPL is the second largest exploration and production company in Pakistan in terms of both production and reserves. PPL contributes around 26% of the country's total natural gas production besides producing crude oil/ Natural Gas Liquids (NGL) and Liquefied Petroleum Gas (LPG). Currently, the company’s shareholding is divided between the Government, which owns about 68 percent shares of the company whereas PPL Employees Empowerment Trust has approximately 7 percent and private investors hold nearly 25 percent shares. The company is also listed on Pakistan Stock Exchange.

### 2.3.2 Comments on Audited Accounts

The working results of the company for the financial year 2018-19 as compared to previous years are given below:

(Rs in million)

| Heads | 2018-19 | % Inc/ (Dec) | 2017-18 | % Inc/ (Dec) | 2016-17 |
|---|---|---|---|---|---|
| Sales | 164,366.02 | 29.81 | 126,621.24 | 7.82 | 117,428.81 |
| Field Expenditure & Royalties | 64,800.78 | 23.85 | 52,320.37 | (1.02) | 52,861.82 |
| Operating Profit | 99,565.24 | 34.00 | 74,300.86 | 15.07 | 64,566.99 |
| Total Other Operating Expenses | 7,163.60 | 33.36 | 5,371.62 | (25.47) | 7,207.35 |
| Other Income | 15,679.12 | 66.85 | 9,396.86 | 92.77 | 4,874.41 |
| Profit before Taxation | 77,836.78 | 22.35 | 63,618.93 | 34.95 | 47,139.70 |
| Taxation | 18,377.39 | 3.28 | 17,793.14 | 43.02 | 12,440.57 |
| Profit after Taxation | 59,459.39 | 29.75 | 45,825.78 | 32.06 | 34,699.13 |

*(Source: Annual Audited Accounts)*

i. Sales revenue increased to Rs 164,366.02 million during the year 2018-19 as compared to Rs 126,621.24 million in the previous year, registering an increase of 29.81%. This increase was mainly due to fluctuation in international oil prices. During 2018-19 production of gas declined by 1.7% as compared to last year.

ii. Other Operating Expenses (except Field / Exploration expenses) increased from Rs 5,371.62 million in 2017-18 to Rs 7,163.60 million in 2018-19, registering an increase by 33.36%. Efforts are required to increase profitability of the company by controlling its other operating expenses.

iii. Trade debts increased from Rs 142,636.089 million in 2017-18 to Rs 227,382.001 million during the year 2018-19 registering an increase of 59.41%. Increase in trade debts indicates unsatisfactory position with regards to recovery of outstanding dues. Necessary measures may be adopted to effect recovery of outstanding dues expeditiously.

iv. Debtors turnover (days) reflected adverse position of 327 days in 2018-19 as compared to 281 days in 2017-18. This was an unusual increase in debtors turnover and reflected 46 days (16.37%) increase over the previous year and also there was an overall increase of 212 days over the period of last five years. Concrete efforts may be made to reduce the blockage in trade debts time cycle.

v. The management planned target of 15 wells for development. However, only 9 wells were completed during the year showing 60% achievement only which needs to be explained.

## 2.3.3 Classified Summary of Audit Observations

Audit observations amounting to Rs 222,653.794 million were raised in this report during the current audit of Pakistan Petroleum Limited. This amount also includes recoveries of Rs 197,968.295 million as pointed out by the Audit. Summary of the audit observations classified by nature is as follows:

## 2.3.4 Overview of Audit Observations

(Rs in million)

| Sr. No. | Classification | Amount |
|---|---|---|
| 1 | Irregularities | - |
| A | Receivables management | 196,754.160 |
| B | Project Management | 14,162.215 |
| C | Procurement related irregularities | 11,550.000 |
| D | HR / Employees related irregularities | 187.419 |

## 2.3.5 Compliance of PAC Directives

| Audit Year | Total directives | Compliance reported | Compliance awaited | Breakup of compliance awaited | %age of compliance |
|---|---|---|---|---|---|
| 2009-10 | 2 | 2 | - | - | 100 |
| 2010-11 | 11 | 9 | 2 | 18.1.4.2 & 18.1.4.3 | 82 |
| 2011-12 | 7 | 7 | - | - | 100 |
| 2012-13 | 5 | 5 | - | - | 100 |
| 2013-14 | 10 | 6 | 4 | 13.1.2.3, 13.1.3, 13.1.4.1 & 13.1.4.2 | 60 |
| 2014-15 | 12 | 12 | - | - | 100 |
| 2015-16 | 7 | 6 | 1 | 15.2.1, 15.2.2.1, 15.2.2.2,15.2.2.3,15.2.2.4, 15.2.3, 15.2.4.1 & 15.2.4.2 | 86 |
| 2016-17 | 10 | 4 | 6 | 13.2.4.1, 13.2.4.2, 13.2.4.3, 13.2.4.4, 13.2.4.5 & 13.2.4.6 | 40 |
| **Total** | **64** | **51** | **13** | | **80** |

The overall compliance of PAC directives needs to be improved further.

## 2.3.6 Audit Paras

### Receivables Management

#### *2.3.6.1 Non-recovery of due amount from customers - Rs 196,754.16 million*

As per Clause 17.3.1 of GSA between PPL and its customers, the buyers shall make payment in respect of supply of gas including taxes or levies and duties in respect of the same, but excluding excise duties and sales tax, within 30

days of receipt of monthly invoice. However, payment of excise duties and sales tax are to be made within 10 days and 15 days respectively. Furthermore, as per Clause 17.3.3, in case of delay, late payment surcharge shall be leviable.

During audit of PPL for the year 2018-19 it was observed that an amount of Rs196,754.16 million was lying outstanding against certain buyers of POL products despite lapse of considerable time period ranging from 03 months to more than 01 year. However, the management made no efforts to recover the outstanding amount which resulted in non-recovery of Rs 196,754.16 million along with late payment surcharge.

Audit is of view that weak receivable management and absence of effective mechanism resulted in non-recovery of Rs 196,754.16 million.

The matter was reported to the PAO in October, 2019 and December 2019. The management in its reply dated December 27, 2019 stated that the due amounts mostly consisted of sale proceeds of previous 2 to 3 months which were stuck up due to awaited approval of SBP for remittance in US$. However, payments in some cases were withheld due to disputes and were being resolved through negotiations or through court. The reply is not tenable as the outstanding amount was due for more than 3 months to 01 year which transpires that no progress regarding recovery of outstanding amount was made.

The DAC in its meeting dated January 24, 2020 pended the para being circular debt issue and directed the management to get the recovered amount verified by Audit and make efforts for early recovery of outstanding amount. No further progress was reported till finalization of the report.

Audit recommends to expedite recovery of principal amount along with late payment surcharge besides framing effective SOPs for recovery of dues from default customers.

[DP Nos. 700, 701, 705 & 762/K]

## Project Management

### *2.3.6.2 Loss due to inordinate delay in completion of gas processing facility - Rs 12,898.080 million*

As per Clause 5.0 of Contract Agreement (GPF-III) between PPL and SPEC Energy DMCC, UAE, "the contractor shall complete all the works pursuant to the contract in 18 months period from the effective date of contract i.e. date of issuance of Letter of Award (LoA), including commissioning and performance test".

During audit of PPL for the FY 2018-19, it was observed that the management executed a contract with M/s SPECC Energy DMCC Limited, Dubai for construction and transmission of a Gas Processing Facility (GPF) at Gambat South Gas Field at a cost of US$ 77.00 million. The facility was expected to process 60 MMCFD gas in the wake of new discoveries in the area. The work on the facility started on April 6, 2016 and was supposed to be completed by October, 2017. However, the contractor failed to complete the project in time causing delay to the available gas ready for processing amounting to Rs 12,898.080 million. The management terminated the contract in June, 2019 and decided to complete the project through its own resources. Hence, inordinate delay in construction of gas processing facilities resulted in loss of gas amounting to Rs 12,898.080 million.

Audit is of the view that poor monitoring by the management of PPL resulted in non-completion of work causing loss to the company.

The matter was reported to the PAO in September, 2019 and December 2019. The management in its reply dated December 27, 2019 stated that project monitoring was carried out according to industrial norms. Upon failure of the contractor to complete the project, the contract was terminated on May 10, 2019 by the management. PPL had lodged a counter claim against the contractor and the matter is sub-judice in Sindh High Court.

The management in DAC meeting dated January 24, 2020 explained that the matter was being investigated by NAB and FIA. DAC directed the

management to provide internal inquiry to Audit for verification. No further progress was reported till finalization of the report.

Audit recommends to explain the reason for delay in completion of work, to improve project management and to pursue the court case vigorously.

[DP No.706/K]

### *2.3.6.3 Non-imposition of liquidated damages for non-completion of project - Rs 1,155 million*

According to Clause 3.34.2 of the contract between M/s PPL and M/s SPEC Energy, if the contractor fails to complete the project within contractual completion time then liquidated damages will be applicable at the prescribed rates subject to maximum applicable rate of 10% of the contract value.

During audit of PPL for the FY 2018-19, it was observed that a contract for construction of Gas Processing Facilities was awarded to M/s SPECC Energy at a cost of US$ 77.00 million (Rs 1,155 million) with completion date of October, 2017. The contractor, however, failed to complete the project within stipulated time period but the management did not impose penalty @ 10% of the contract amount as liquidated damages as stipulated in the agreement. This resulted in loss of Rs 1,155 million due to non-realization of liquidated damages. Later, the management decided to complete the project from its own internal resources, thus, incurring extra cost on the project. However, the project still remains incomplete despite the lapse of two years.

Audit is of the view that weak internal controls resulted in non-imposition of liquidated damages amounting to Rs 1,155 million.

The matter was reported to the PAO in December, 2019. The management in its reply dated December 27, 2019 stated that contractor's bank guarantee equivalent to 10% of the contract value was encashed according to the provisions of the contract. However, the contractor filed law suits against termination of contract and encashment of bank guarantees in Sindh High Court. As the matter is sub-judice, no record could be provided to Audit for verification. The reply is not tenable as no specific directions were issued by the

court regarding confidentiality of the record and the same was available with the management, therefore, the same was required to be provided to Audit.

The DAC in its meeting dated January 24, 2020 directed the management to get the relevant record (internal audit report, minutes of Board meeting, inquiry reports, latest correspondence with the firm, bank guarantee, status of court case etc.) verified from Audit within a week. No further progress was reported till finalization of the report.

Audit recommends that to provide evidence of imposition and recovery of LD charges besides pursuing the court case vigorously.

[DP No. 632/K]

### *2.3.6.4 Loss due to non-recovery and non-obtaining of performance bank guarantee - Rs 59.135 million*

According to Clause 5.12 of the work contract executed between PPL and M/s BST Services, the contractor shall furnish to the company a performance bond in the form of a bank guarantee for an amount of 10% of the contract price from a bank acceptable to the company within fifteen days of award of work, valid upto six months after successful performance tests. If the contractor is unable to meet its obligation, the performance bond / guarantee will be extended or encashed as per company's discretions. Further, according to Clause 5.7.15 of the contract, if the contractor fails to carry out or abandons the works under the contract, the company shall be entitled to carry out the remaining work on its own or by any other contractor and to recover the cost thereof from the contractor and may deduct the same from any other monies that are or may become due to the contractor.

During audit of PPL for the FY 2018-19, it was observed that the management awarded contract for construction, procurement and commissioning of services of Adhi gas compression project to M/s BST Services on April 17, 2018 for Rs 474.157 million. However, the contract was awarded without obtaining performance guarantee @ 10%. Later on, the contractor showed its inability to continue and complete the project. This resulted in loss of Rs 47.416 million due to non-obtaining of bank guarantee. The management awarded the

contract to the 2nd lowest bidder M/s Gasco Engineering (Pvt) Limited on August 29, 2018 for Rs 485.876 million. As per the agreement, M/s BST Services was liable to pay the difference in the cost of two contracts but the management failed to recover additional cost amounting to Rs 11.719 million incurred on the project. Hence, non-obtainment of bank guarantee and non-recovery of additional cost on the project resulted in loss of Rs 59.135 million (Rs 47.416 million plus Rs 11.719 million).

Audit is of the view that negligence of the management resulted in non-obtaining of bank guarantee and non-recovery of additional cost on the project thus causing loss of Rs 59.135 million.

The matter was reported to PAO in December, 2019. The management in its reply dated December 27, 2019 stated that even though the bid bond had expired on June 27, 2018, the original instrument was in the custody of PPL, due to which vendor was unable to get the funds of Rs 2 million per case released from the bank and case was being taken up for settlement. Moreover, legal notice dated November 12, 2018 was issued to the vendor and negotiations on different options for recovery were underway. The reply is not tenable as retention of expired bid bond did not justify non-obtaining of performance bank guarantee. Furthermore, no concrete efforts were made for recovery of additional cost on the project as the amount remained non-recoverable despite lapse of one and half years.

The DAC in its meeting held on January 24, 2020 directed the management to effect recovery besides referring the matter to the internal audit committee and submit a report by fixing responsibility within 15 days to Audit. No further progress was reported till finalization of the report.

Audit recommends to conduct an inquiry to fix responsibility for this lapse besides recovering the outstanding amount at the earliest.

[DP Nos. 628 & 629/K]

#### *2.3.6.5 Extra cost due to unjustified extension in the contract - Rs 50 million*

As per agreement between PPL & M/s Petrocon Private Limited, the validity of contract for welding / construction and laying of pipelines and wellhead surface fittings for Gambat South Field expired on December 31, 2016. As per Clause 2 of the mandatory conditions, it shall be contractor's responsibility to arrange all necessary resources to complete all the work within stipulated time and to schedule activities in such ways to meet available time duration.

During audit of PPL for the FY 2018-19, it was observed that an agreement for construction of pipelines and wellhead surface fittings was executed between M/s PPL and M/s Petrocon on October 19, 2015 at a cost of Rs 470 million. Initially, the contract was awarded for a period of one year ending on December 31, 2016. Later on, three extensions i.e. for one year upto December 31, 2017, for three months up to March 31, 2018 and for six months upto September 30, 2018, were granted. Consequently, cost of the project enhanced from Rs 470 million to Rs 520 million, in addition to time overrun. Hence, an additional cost of Rs 50 million was incurred due to unjustified extension in the contract period.

Audit is of the view that poor procurement management resulted in unjustified extension in the project completion date, thus, enhancing cost of project by Rs 50 million.

The matter was reported to the PAO in December, 2019. The management in its reply dated December 27, 2019 stated that clarification regarding prequalification of the vendors was already obtained from PPRA according to which no tendering was required for procurement through pre-qualified contractors. The reply is not tenable as Audit did not object to prequalification of the vendors but the extension in the contract completion date for which no justification was provided by the management.

The DAC in its meeting held on January 24, 2020 directed the management to get the relevant record verified from Audit within a week. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for granting unjustified extension besides improving procurement management to avoid such instances in future.

[DP No. 759/K]

**Procurement related irregularities**

***2.3.6.6 Irregular award of contract - Rs 11,550 million***

According to Rule 15 of PPRA Rules, 2004, a procuring agency, while engaging in pre-qualification, may take into consideration the relevant experience and past performance, appropriate managerial capability and any other factor that a procuring agency may deem relevant.

During audit of PPL for the FY 2018-19, it was observed that the management awarded a contract for construction of Gas Processing Facility (GPF) at Gambat South field to M/s SPEC energy at a cost of Rs 11,550.00 million (US$ 77.00 million). The contractor, however, had no experience of setting up LPG extraction plant and the experience certificate provided by them had already been rejected by PPL for earlier contracts. Furthermore, the contractor provided un-approved vendors list. However, despite doubtful conduct of the contractor, the management awarded contract to the said vendor causing irregular procurement amounting to Rs 11,550 million.

Audit is of the view that negligence of the management resulted in irregular award of contract amounting to Rs 11,550 million.

The matter was reported to PAO in September, 2019. The management in its reply dated December 27, 2019 stated that contract for GPF was awarded after competitive bidding through press advertisement. The reply is not tenable as the contractor lacked the required experience and managerial capabilities, therefore, award of contract regardless of procurement method was objectionable.

The DAC in its meeting dated January 24, 2020 directed the management to provide complete record to audit for verification. No further progress was reported till finalization of the report.

Audit recommends to investigate award of contract without fulfilling codal requirements besides improving procurement management to avoid such irregularities in future.

[DP No. 763/K]

**HR / employees related irregularities**

### *2.3.6.7 Irregular appointment of General Manager Sui Asset - Rs 67.200 million*

As per Clause 3.4 of HRM Policy of PPL, policy is designed provide an efficient framework and is based on transparency, fairness and meritocracy. Further, Clause 3.3 stressed upon company's commitment to provide equal employment opportunities without any discrimination.

During audit of PPL for the FY 2018-19, it was observed that management invited applications for the post of General Manager Sui Asset (JG-13) through advertisement on April 04, 2015. In this regard, a head hunting firm was hired to receive applications by May 06, 2015. Meanwhile, a candidate for the said post emailed his application to GM (HR) instead of mailing it to the head hunter on the plea that he did not have the email address of the head hunter. The management accepted the application and called him on May 07, 2015 for interview and appointed him as GM Sui Assets on the same date. Hence, the management carried out interview, prepared selection summary, obtained MD's approval and issued appointment letter in a single day. All these facts led to the conclusion that undue favour was granted to the appointee thus resulting in irregular appointment and payment of salary of Rs 67.200 million.

Audit is of the view that weak internal controls led to undue favour to the candidate resulting in irregular appointment and payment of salary of Rs 67.200 million.

The matter was reported to the PAO on October 31, 2019. The management in its reply dated December 27, 2019 stated that in 2015, the company's Board approved a new organization for the Company hence the vacant position of General Manager Sui Asset was required to be urgently filled

to complete transition phase of transformation on fast track. Mr. M. Rafiq Vohra holding B.E. (Mechanical) degree and 30 years of experience in national and multinational companies had previously worked for PPL and was approached to see if he was interested in joining a vacancy in PPL. Thereafter, advertisement was published and he was hired with the approval of Ex-MD and Board. Mr. Rafiq Vohra retired from Company's Service in April, 2019. The reply endorses Audit stance that undue favour was extended to the candidate as the whole procurement process was carried out in order to appoint the said candidate.

Audit recommends to inquire undue favour extended to the candidate besides recovering salary paid.

[DP No. 702/K]

### *2.3.6.8 Irregular appointment of Engineer Projects - Rs 8.472 million*

As per criteria for the post of Engineer Project advertised in the newspaper on July 26, 2015, the required qualification and experience for the post of Project Professionals was four years Bachelor's or Master's degree in any engineering discipline from a reputable local or foreign university with relevant experience up to fifteen years. The experience should be either of a reputable E&P company or an Engineering company providing consultancy services to oil & gas sector.

During audit of PPL for the FY 2018-19, it was observed that an officer was appointed as Engineer Project (JG-06) in Projects department for Adhi Plant-III at a salary of Rs 0.177 million per month. The officer joined the company in October, 2015. The candidate, however, had only seven and half years' experience and that too in irrelevant field, hence, did not meet the advertised requirement. Moreover, in January, 2015, application of the incumbent for the post of Electrical / Instrument Professional was rejected on account of failing to meet the required educational qualification but the same application was considered by the company for the current position despite the fact that the previous application was for an entirely different position. Hence, the appointment of the officer without requisite criteria and payment of salary of Rs 8.472 million was irregular.

Audit is of the view that weak internal controls resulted in undue favor to the candidate resulting in irregular appointment and payment of salary amounting to Rs 8.472 million.

The matter was reported to the PAO on October 31, 2019. The management in its reply dated December 27, 2019 stated that vacancies of "Project Professionals" were advertised in daily "Dawn" on July 26, 2015 requiring minimum qualification and experience upto 15 years. In 2015, the officer had applied in PPL against the advertised position of E&I Professionals. However, since his qualification was not relevant so his application was rejected. Later on, 02 positions of Project Professionals were advertised in the newspaper on July 26, 2015 and the CV earlier submitted was considered for the position. All the 6 interviewers of 1st and 2nd interview panel recommended him and he was offered employment as Engineer (Projects). The reply is not tenable as the incumbent was awarded undue favour in appointment as he had not applied against the advertised post and did not meet the qualification of the post hence his appointment was irregular.

Audit recommends to hold an inquiry on irregular appointment of officer besides recovery of salary from the said officer.

[DP No. 630/K]

### *2.3.6.9 Irregular award of additional charge of CEO / MD to Deputy Managing Director*

According to provision of Para 2(1) of Public Sector Companies (Appointment of Chief Executive) Guidelines, 2015, every public sector company shall appoint its chief executive in accordance with the specified procedure. The Board shall initiate the appointment process, at least three months before the term of the incumbent chief executive is going to expire, by issuing a public advertisement in the print media, inviting applications for appointment against the vacant position. Furthermore, as per Para 7(2) of the Guidelines, it shall be ensured that the appointment of chief executive is finalized at least thirty days before the date of expiry of the term of the incumbent chief executive so that the appointment is made by the Board within the period stipulated under Section 198 and 199 of the Companies Act, 2017.

During audit PPL for the FY 2018-19, it was observed that working MD retired in April, 2018 and the Deputy Managing Director was awarded additional charge of the post of Managing Director / Chief Executive Officer w.e.f. January 01, 2019 for a period of 90 days or till the appointment of regular incumbent, whichever was earlier, by Ministry of Energy (Petroleum Division), Islamabad vide notification dated January 03, 2019. His additional charge expired on March 30, 2019 which was awarded again by the BoD in its meeting held on July 15, 2019 till appointment of a regular incumbent. Thus the BoD failed in its responsibility to appoint a regular MD/CEO as required under the rules. Because, no provision regarding assignment of additional charge of MD/CEO to any other officer was available in the rules, the award of additional charge in question was irregular.

Audit is of the view that negligence of BoD resulted in irregular grant of additional charge of the post of MD/CEO to the Deputy Managing Director.

The matter was reported to the PAO on October 31, 2019 and December 2019. The management in its reply dated December 27, 2019 stated that appointment of Mr. Saeed Ullah Shah as an interim CEO of the company for a term of six months was in accordance with section 187(1) of the Companies Act, 2017. It was further stated that process of recruitment of CEO was started in January 2018 and candidates were recommended by the BoD to the Ministry of Energy (Petroleum Division) in November 2018. However, the Ministry, vide its letter dated 5th December 2018 directed all the Public Listed Companies to halt the process of appointment of CEOs until the reconstitution of their BoDs. Upon completion of term of Mr. Saeed Ullah Shah, MOE vide its letter dated 3rd January 2019, conveyed the approval of the competent authority to assign the work of the post of CEO to Deputy MD, as an additional charge. The Ministry vide its letter dated June 3, 2019 conveyed the approval of the reconstitution of the BoD of the company and directed the Board vide its letter dated 11thJune 2019 either to interview the shortlisted candidates or to initiate the process afresh. The new Board immediately re-initiated the process of appointment of CEO in its first meeting held on July 15, 2019.

Reply is not tenable as the position of MD/CEO was lying vacant since April, 2018, whereas under the Guidelines, BoD was required to initiate the

appointment process three months before the completion term of a regular MD. However, the PPL Board which was effective upto the end of November, 2018 could not fulfil its obligatory responsibility to initiate process for the appointment of regular MD. Moreover, award of additional charge to the present CEO/MD beyond the initial period of 90 days by the Board, was held irregular as powers for the same rested with the Ministry.

Audit recommends to justify failure of BoD to appoint regular MD besides initiating process for appointment of regular MD.

[DP No. 627/K]

#### *2.3.6.10 Irregular upgradation of posts by the MD - Rs 111.747 million*

As per Uniform Recruitment & Promotion Policy of Ministry of Petroleum & Natural Resources, testing is to be carried out using IBA, LUMS and National Testing Services or any other authenticated, certified third party mechanism. Interview panel for interview of successful candidate shall consist of between 3 to 5 members including independent member from Board HR committee. Further, as per Clause 3.5.3 of HRM policy of PPL, panel interviews shall be used for assessing suitability of experienced professionals against vacant positions.

During audit of PPL for the FY 2018-19, it was observed that the management invited applications for appointments to the posts of Senior Manager, Senior Manager Operations and Manager Administration through advertisements. However, there was no vacant position in the relevant grade hence, the candidates were appointed after upgradation of the posts by the MD. The detail is as below:

| Sr. No. | Name | Advertised post | Appointment |
|---|---|---|---|
| 1 | Mr. Junaid Bin Idrees Khawaja | Senior Manager Projects (JG-12) | Against lower post |
| 2 | Mr. Muhammad Saleemullah | Senior Manager Operation (JG-12) | Against Senior Engineer (Instrument) in JG-08 |
| 3 | Mr. M. Farooq | Manager (Admin) (JG-II) | Against Chief Admin Officer (Group-10) |

Audit is of the view that weak internal controls and HR management resulted in irregular appointment and payment of salary amounting to Rs 111.747 million.

The matter was reported to the PAO on October 31, 2019. The management in its reply dated December 27, 2019 stated that the then MD upgraded available vacant position on the basis of his power. The reply is not tenable as MD was not authorized to upgrade posts

Audit recommends to investigate irregular appointments besides recovery of salary paid**.**

[DP Nos. 699/K, 704/K & 761/K]

## 2.4 Pakistan State Oil Company Limited

### 2.4.1 Introduction

Pakistan State Oil Company Limited (PSO) is a public limited company incorporated in Pakistan under the Companies Ordinance, 1984 (now Companies Act, 2017) and is listed on Pakistan Stock Exchange. The principal activities of the company are procurement, storage, and marketing of petroleum products. It also blends and markets various kinds of lubricating oils.

### 2.4.2 Comments on Audited Accounts

The working results of the company for the year 2018-19 as compared with those of the previous years are given below:

(Rs in million)

| Particulars | 2018-19 | % Inc/ (Dec) | 2017-18 | % Inc/ (Dec) | 2016-17 |
|---|---|---|---|---|---|
| Net Sales | 1,185,484 | 11.44 | 1,063,744 | 21.14 | 878,147 |
| Cost of Products Sold | 1,152,674 | 12.55 | 1,024,107 | 21.77 | 841,011 |
| Gross Profit/(Loss) | 32,809 | (17.22) | 39,636 | 6.73 | 37,136 |
| Marketing & Admin. Expenses | 13,315 | 11.62 | 11,928 | 6.14 | 11,238 |
| Other Expenses | 4,683 | 40.46 | 3,334 | 40.20 | 2,378 |
| Total Operating Expenses | 17,998 | 17.92 | 15,263 | 12.10 | 13,616 |
| Other Operating Income | 16,922 | 125.72 | 7,497 | (32.71) | 11,142 |
| Total Operating Profit/(Loss) | 31,733 | (0.43) | 31,870 | (8.05) | 34,662 |
| Financial Charges | 9,955 | 94.32 | 5,123 | (13.51) | 5,923 |
| Profit /(Loss) before share of associate | 21,778 | (18.58) | 26,747 | (6.93) | 28,738 |
| Share of Profit of associates | 199 | (51.82) | 413 | (32.11) | 608.38 |
| Profit/(Loss) before Taxation | 21,977 | (19.08) | 27,160 | (7.45) | 29,347 |
| Taxation | 6,870 | (41.28) | 11,699 | 5.20 | 11,121 |
| Profit /(Loss) after Taxation | 15,107 | (2.30) | 15,461 | (15.17) | 18,226 |
| Market Share | 42.4% | - | 50% | - | 54.8% |

*(Source: Annual Audited Accounts)*

i. The net sales increased from Rs 1,063,744 million in FY 2017-18 to Rs 1,185,484 million during the FY 2018-19, registering an increase of 11.44%. The increase in net sales was apparently due to increase in oil

prices as the sales volume during the FY 2018-19 was 7.5 million tons against 11.7 million tons during last year registering negative growth of 35.90% in terms of volume. Moreover, the operating cost increased to 17.92% in the FY 2018-19 as compared to previous year. Increase in operating cost despite decrease in volume sales needs to be justified.

ii. Finance cost increased to Rs 9,955 million during FY 2018-19 from Rs 5,123 million during FY 2017-18 registering an increase of 94.32 %. This shows that company relied on borrowed funds instead of improving recovery of receivables which were Rs 223,797 million on June 30, 2019. There is need to improve the recovery mechanism to eliminate reliance on borrowed funds.

iii. Despite increase of 125.72% in other income, total operating profit dropped by 0.43% as compared to previous year because there was 40.46% increase in other expenses which showed that company failed to control other expenses which needs justification.

### 2.4.3 Classified Summary of Audit Observations

Audit observations amounting to Rs 179,314.943 million were raised in this report during the current audit of PSO. This amount also includes recoveries of Rs 90,233.641 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

### 2.4.4 Overview of Audit Observations

(Rs in million)

| Sr. No. | Classification | Amount |
|---|---|---|
| 1 | Reported cases of fraud, embezzlement and misappropriation | 7.000 |
| 2 | Irregularities | |
| A | Receivables Management | 90,145.786 |
| B | Procurement related irregularities | 65,153.479 |
| C | Defective Financial Management | 17,684.000 |
| D | HR / Employees related irregularities | 193.988 |
| 3 | Others | 6,130.690 |

## 2.4.5 Compliance of PAC Directives

| Audit Report Year | Total No. of Directives | Compliance reported | Compliance not received | Breakup of compliance awaited | %age of compliance |
|---|---|---|---|---|---|
| 1989-89 | 5 | 2 | 3 | 486, 487 & 488 | 40 |
| 1993-94 | 7 | 4 | 3 | 18, 19 & 21 | 57 |
| 1995-96 | 7 | 2 | 5 | 29, 30, 32, 33 & 34 | 29 |
| 1996-97 | 6 | 5 | 1 | 26 | 83 |
| 1998-99 | 4 | 3 | 1 | 107 | 75 |
| 1999-00 | 7 | 5 | 2 | 150 & 155 | 71 |
| 2000-01 | 14 | 13 | 1 | 173 | 93 |
| 2002-03 | 6 | 3 | 3 | 190,1, 190.2 & 192 | 50 |
| 2003-04 | 11 | 9 | 2 | 151.3 & 151.5 | 82 |
| 2004-05 | 8 | 6 | 2 | 105 & 106 | 75 |
| 2008-09 | 4 | 2 | 2 | 169 & 171 | 50 |
| 2010-11 | 16 | 9 | 7 | 18.2.2.3, 18.2.4.1, 18.2.4.2, 18.2.4.3, 18.2.4.4, 18.2.4.5 & 18.2.4.6 | 56 |
| 2013-14 | 19 | 5 | 14 | 13.2.2.2, 13.2.2.3, 13.2.2.4, 13.2.2.5, 13.2.2.6, 13.2.2.7, 13.2.4.2,13.2.4.3, 13.2.4.4, 13.2.4.6, 13.2.4.7, 13.2.4.8, 13.2.4.9 & 13.2.4.10 | 26 |
| 2016-17 | 19 | 8 | 11 | 13.3.4.1, 13.3.4.2, 13.3.4.3, 13.3.4.5, 13.3.4.6, 13.3.4.8, 13.3.4.10, 13.3.4.11, 13.3.4.12, 13.3.4.13 & 13.3.4.14 | 42 |
| **Total** | **154** | **89** | **65** | | **58** |

The overall compliance of PAC directives needs to be improved.

## 2.4.6 Audit Paras

**Reported cases of fraud, embezzlement and misappropriation**

***2.4.6.1 Misappropriation of funds - Rs 7.00 million***

According to Rule 4(3) of Public Sector Companies (Corporate Governance) Rules, 2013, the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of PSO for the FY 2018-19, it was observed that a Senior GM of PSO was posted on secondment as MD Asia Petroleum Limited, a subsidiary of PSO. The officer made irregular advance payments of Rs 7.00 million as detailed below:-

(i) Rs 5.00 million were paid to M/s Nasir & Co. for consultancy without any agreement, work order and terms of reference or deliverable.
(ii) Rs 1.200 million were paid to M/s Oil Field for procurement of batteries against bogus insurance guarantee. The supplier neither supplied the batteries nor returned the amount.
(iii) An amount of Rs 0.8 million was reimbursed as travel expenses to Major General (Rtd.) Salimullah for consultancy without any evidence of work performed.

Audit is of the view that negligence of management resulted in loss of Rs 7 million to the company.

The matter was reported to the PAO on November 05, 2019. The management in its reply dated December 19, 2019 stated that APL was a separate entity, therefore PSO could not make any comments on any matter which pertains to APL’s internal operations. The reply is not tenable as APL is a

subsidiary company of PSO and the officer was on secondment to that company. Moreover, the officer was involved in fraud and was arrested by FIA and was granted bail on deposit of Rs 500,000 to APL/ PSO and under assurance of deposit of another Rs 700,000 latter on.

Audit recommends to ensure recovery of outstanding amount with interest from the officer besides strengthening internal controls to avoid such lapses in future.

[DP No. 810/K]

**Receivables Management**

***2.4.6.2 Non-recovery of late payment surcharge - Rs 87,400 million***

According to fuel supply agreement " Delay in payment from GENCO-III will attract financial charges @ KIBOR plus 2% beyond one working day of the verification time of 20 days from last submission day of FRODN and / or FDDN, (total 25 days i.e. 5 working days for submission of form and 20 days for verification)."

During audit of PSO for the FY 2018-19, it was observed that the management failed to recover Rs 87,400 million on account of late payment surcharge as detailed below:

(Rs in billion)

| Sr. No. | Name of customer | Amount of late payment surcharge as on June 30, 2019 |
|---|---|---|
| 1 | GENCO-III (WAPDA) | 41.8 |
| 2 | HUBCO | 25 |
| 3 | KAPCO | 16.6 |
| 4 | PIA | 4 |
| | **Total** | **87.4** |

Audit is of the view that weak monitoring of receivables resulted in non-recovery of late payment surcharge.

The matter was reported to the PAO on November 05, 2019. The management in its reply dated December 19, 2019 stated that during FY 2018-19, an amount of Rs 3,660 million was recovered while in FY 2019-20

(till December) an amount of Rs 2,540 million had been recovered against LPS. During verification in January, 2020, the management did not provide documentary evidence in support of recovered amount. No further progress was reported till finalization of the report.

Audit recommends to get the recovered amount of the late payment surcharge verified besides taking steps to recover the balance amount.

[DP No. 750]

### *2.4.6.3 Non-settlement of IFEM claims of PSO – Rs 2,145 million*

As per PSO letter dated September, 19, 2016 addressed to OGRA, the yearly difference between each OMC's noted and actual costs on transportation was to be settled by OGRA after completion of Inland Freight Equalization Margin audit.

During audit of PSO for the FYs 2014-17, it was observed that claims of Rs 2,145 million, on account of IFEM could not be got settled from OGRA due to non-conducting of IFEM audit since 2012.

Audit is of the view that non-conducting of IFEM audit since 2012 and non-settlement of IFEM claims resulted in accumulation of IFEM receivables amounting to Rs 2,145 million.

The matter was reported to the PAO on November 5, 2018.

The DAC in its meeting held on January 21, 2019 directed the Petroleum Division to take up the matter with OGRA for its early resolution. No further progress was reported till finalization of the report.

Audit recommends the management to take up the matter with OGRA for early settlement of the IFEM claims which have risen to Rs 2,493.41 million as on 30.06.2019 and ensure conducting of IFEM audit on regular basis.

[DP No. 751]

### *2.4.6.4 Non-recovery from customers – Rs 586.401 million*

According to Para 9.1 of SOP issued by PSO in 2010, non-government accounts are to be blocked by 20th and 30th of every month for due dates of 15th and 25th respectively, whereas the government accounts are to be blocked after approval from Credit Evaluation Committee.

During audit of PSO for the FY 2017-18, it was observed that the management failed to recover outstanding amount of Rs 586.401 million against credit sale of petroleum products, Shop-Stop/retail shops, PSO card holders and Non-Fuel Retailers (NFR). Audit held that by allowing the receivables to reach this level, management had created unnecessary risks in its financial management which may lead to high bad debts **(Annex-6)**.

Audit is of the view that poor receivable management resulted in non-recovery of Rs 586.401 million.

The matter was reported to the PAO in September and November, 2019. For DP 749, the management informed that amount had been reduced to Rs 7.813 million of 80 shop stops. However, in support, the management provided CIS adjustments only and no supporting documents were provided for verification.

The DAC in its meeting held on December 24, 2019 directed the management to expedite recovery. No further progress was reported till finalization of the report.

Audit recommends the management may get the recovered amount verified from Audit, besides recovery of balance amount.

[Annex-6]

### *2.4.6.5 Non-realization of road approach rent from the dealers - Rs 5.620 million*

According to Clause 20.1 of dealership license agreement, PSO may make payment of taxes, charges and rentals of approach roads to national/provincial highway authorities, on behalf of dealers who shall

reimburse the entire amount to PSO within fifteen days and in case of failure to do so, a late payment charge calculated by reference to the lending rate of State Bank of Pakistan plus 2% per annum for each day of delay after the fifteen days period.

During audit of PSO for the FY 2017-18, it was observed that the management paid road approach rent @ Rs 5,000 per pump to the Punjab Highway Authority, D.I Khan but failed to recover the same from dealers / petrol pumps. This resulted in non-realization of road approach rent of Rs 5.620 million.

Audit is of the view that poor recovery management led to non-recovery of road approach rent from dealers / petrol pumps.

The matter was reported to the PAO on September 25, 2019. The management replied that PSO had an auto recovery mechanism for recovering approach road rental from dealers and Rs 0.01/litre was deducted from the retail outlets operating on provincial highways at the time of invoicing. The reply of the managemnt is not tenable because no supporting evidence showing recovery of rent was provided to Audit.

The DAC in its meeting held on December 24, 2019 directed the management to get the record verified from Audit within three days. No progress was reported till finalization of the report.

Audit recommends to recover the road approach rent along with late payment charge at the earliest.

[DP No. 299]

### *2.4.6.6 Loss due to defective credit sales policy - Rs 8.765 million*

According to the Code of Conduct of PSO, a person is liable to disciplinary action if his negligence causes loss to Company's property(s). Further, Rule 5(1) of Public Sector Companies (Corporate Governance) Rules, 2013 as amended up to April 21, 2017 stipulates "The directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly

exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company. This provision shall apply to all directors, including ex-officio directors."

During audit of PSO for the FY 2018-19, it was observed that the management allowed credit sales of its petroleum products to three dealers without securities to cover the risk of default. Later, the parties defaulted on payment as their cheques were dishonoured by the respective banks. This resulted in loss of Rs 8.765 million due to defective credit sales policy.

Audit is of the view that weak internal controls resulted in loss to the company due to defective credit sales policy.

The matter was reported to the PAO in October, 2019. The management in its reply dated December 19, 2019 stated that three defaulted customers as highlighted by Audit were allowed credit within the defined parameters of credit policy. Outstanding amount had further been reduced to Rs 6.075 million which would also be recovered as per instalments schedule agreed with the customers. The reply is not tenable as relevant record showing recovery of Rs 2.69 million was not provided to Audit during verification. Hence recovery reported by the management remained unverified. No further progress was reported till finalization of the report.

Audit recommends to recover the outstanding amount besides fixing responsibility for sale beyond credit limit.

[DP No. 619/K]

**Procurement related irregularities**

***2.4.6.7 Irregular award of contracts without approval of Board of Management - Rs 56,000 million***

According to Rule 30 of Pakistan Petroleum (Refining, Blending and Marketing) Rules, 1971, no agreement relating to the supply, purchase, sale, storage or export of any imported products shall be entered into by any person without the prior approval in writing of the Authority i.e. DG Oil.

During audit of PSO for the FYs 2014-17, it was observed that two ex-MDs of PSO, entered into agreements with M/s AGPL without approval of concerned authority i.e. DG (Oil), Islamabad for supply of petrol and diesel worth Rs 56,000 million. These agreements were declared unlawful by DG Oil and OGRA being in violation of rules. It is pertinent to mention that later on, one of them joined AGPL as its MD and the other as ex-SGM (Retail Business). At the time of audit, one was stated to be under judicial remand and the other was out of country.

Audit is of the view that weak internal controls resulted in unlawful agreements by the management of the company causing loss of Rs 56,000 million to PSO.

The matter was reported to the PAO on November 5, 2019 and on December 07, 2018. The management in its reply dated December 19, 2019 stated that approval was obtained from the concerned authority as per delegation of financial powers.

The DAC in its meeting held on January 21, 2019 directed the management to provide copies of agreements, quantity supplied and payment vouchers. During verification of record in January 2020, the management provided copy of agreement and informed that the case was under investigation by NAB.

Audit recommends to hold an inquiry into the matter and outcome of investigation by NAB may also be shared with Audit.

[DP No. 683/K]

### *2.4.6.8 Loss due to determination of the cost of POL products before actual payment - Rs 8,314.319 million*

As per Para 2(b) of letter No. PL-3(434)/2011Vol-XII dated May 31, 2011 of Ministry of Petroleum and Natural Resources, Refineries and Oil Marketing Companies (OMCs) are allowed to fix and announce on monthly basis the ex-refinery and ex-depot sale price of petroleum products at their own competitive basis subject to the conditions that for imported petroleum products

only actual incidental / wharfage incurred may be included in the calculation of import price.

During audit of PSO for the FY 2017-18, it was observed that the company imported HSD and PMG on deferred payment bais with one month credit facility. However, the POL products were included in the cost sheet despite the fact that the payments were due after one month. OGRA determined the price for POL products by applying exchange rate applicable one day before payment at the end of month. Resultantly, the company suffered persistent loss amounting to Rs 8,314.319 million since 2011 because of difference in exchange rates between purchase and payment dates.

Audit is of the view that weak financial management resulted in loss to PSO.

The matter was reported to the PAO on November 5, 2019. The management in its reply dated December 19, 2019 stated that the POL products could not be sold unless included in cost sheets sent to OGRA. Moreover it was not possible to retain the quantity purchased till payment was made to the seller. The only possible solution was for OGRA/ECC to allow PSO to adjust the provisional cost in subsequent months' prices. No further progress was reported till finalization of the report.

Audit recommends that matter may be taken up with OGRA through Petroleum Division to resolve the issue at the earliest.

[DP No. 745]

#### *2.4.6.9 Irregular procurement of dispensing units – Rs 542.300 million*

As per Rule 10 of PPRA 2004, specifications shall allow the widest possible competition and shall not favour any single contractor or supplier nor put others at a disadvantage.

During audit of PSO for the FY 2018-19, it was observed that management awarded the contract for supply, installation and maintenance of 919 dispensing units to M/s Tatsuno Corporation for Rs 542.300 million. These dispensing units were to be installed at the outlets for sale of oil to general

public/consumers. However, the specifications required a 7 digits display showing volume of dispensing units instead of the previous contract awarded on the basis of 6 digit display.

Audit is of the view that procurement was unjustified as there was no need to go for a 7 digit display unit.

The matter was reported the PAO on November 5, 2019. The management in its reply dated December 19, 2019 stated that the specifications of the dispensing units in the tender were set as per the technical requirements of PSO and approved by a Specification Committee. The reply was not tenable as the management could not justify the specific requirement of 7 digit value and volume keeping in view the tank capacity of vehicles to be served at petrol pumps. No further progress was reported till finalization of the report.

Audit recommends to investigate the matter to fix responsibility for irregular procurement.

[DP No. 685/K]

#### *2.4.6.10 Irregular and non-transparent procurement – Rs 240.667 million*

According to Rule 25 of Public Procurement Rules, 2004, “the procuring agency may require the bidders to furnish a bid security not exceeding five per cent of the bid price”. As per Clause 1.6 & 1.9 of general instruction to the bidders “the rates should be quoted on “net of discount basis”. Discount allowed on the total amount of bid before submission of bid and no post bid variation or any discount offer shall be considered. PPRA Rule 31 does not allow altering or modifying the bid after it has been opened. PPRA rules also do not allow negotiations as getting discount after opening of bid tantamount to negotiations.

During audit of PSO for the year 2018-19, it was observed that the management awarded two contracts for supply of HDPE blow grade and injection grade for can manufacturing at LMT Korangi to M/s Vinmar Polymer without obtaining security deposit aggregating to Rs 162.55 million. In both cases, the supplier decreased the amount of invoices and the management obtained discount of Rs 1.41 million in violation of the rules and compromising

the transparency of procurement. In another contract the management awarded the contract of protective coating on tanks and pipelines to M/s A. Karim & Sons Engineering Private Limited valuing Rs 78.116 million on the basis of lowest bid with the discount offered after bid opening which was in contradiction to the above clause. This resulted in irregular and non-transparent procurement without obtaining security deposits for Rs 240.667 million and accepting discounts after bid opening.

Audit is of the view that award of contract without security deposit and obtaining discount after opening of bid tantamount to irregular procurement.

The irregularity was reported to the PAO on November 5, 2019. The management in its reply dated December 19, 2019 stated that the requirement of bid security and security deposit were removed to encourage participation and approval of waiver was obtained from the Procurement Committee of PSO in its meeting held on August 30, 2017. The reply is not tenable because the Procurement Committee was not competent to grant waiver of PPRA rules. For the other case, management replied that there was no change in specifications or terms and conditions of the tender and voluntary discount offered by the bidder was merely 0.87% of the initial bid value, which resulted in savings of Rs 687,040 to PSO. In other case the reply is not based on facts as the rates of the lowest bidder for stencilling items were on higher side and clarification was sought from the bidder. In response to clarification the bidder revised the rates of stencilling item to lower side which resulted in reduction in overall bid value from Rs 78,803,002 to Rs 78,115,962. Hence, the whole process was lacking transparency as discount was offered and accepted after opening of bid which changed the substance of bid. No further progress was reported till finalization of the report.

Audit recommends to investigate the matter and justify waiver of the condition of bid security and accepting discount post bid opening.

[DP Nos. 686, 688 & 746/K]

### *2.4.6.11 Non-fulfilment of contractual obligations by the contractors - Rs 48.593 million*

According to Para Nos. 1.01, 2.01, 5.01 and 6.01 of bid documents pertaining to the contract for pick and drop services for female staff from their residence or nearby designated point to PSO House, Multan, Lahore, Mehmood Kot and back, the contractor was bound to ensure dual air conditioned Toyota Hiace or equivalent Vans model of 2014 with at least 15 seat capacity.

During audit of PSO for the FY 2018-19, it was observed that the management awarded the contract of providing transport services to PSO staff to three contractors. However, as per record, two contractors did not fulfil the requirement of the contract and deployed vans which were not of 2014 model resulting in incomelete delivery of services of Rs 48.593 million.

Audit is of the view that weak contract management resulted in non-fulfilment of contractual obligations amounting to Rs 48.593 million.

The matter was reported to the PAO on November 5, 2019. The management in its reply dated December 19, 2019 stated that the required vehicles (Model 2014 & above) were subsequently provided by the successful bidders as per the terms and conditions of the contract. The reply is not tenable because during verification it transpired that M/s Butt Brothers possessed 09 vehicles against the required 10 vehicles and M/s United Transport Service possessed only two vehicles against required 06 vehicles, hence, both bidders did not fulfil the requirement of tender. No further progress was reported till finalization of the report.

Audit recommends that matter be investigated and fix responsibility for non-fulfilment of contractual obligations.

[DP No. 754]

### *2.4.6.12 Irregular extension of contract without open competitive bidding – Rs 7.6 million*

According to Rule 42c(iii) and (iv) of PPRA Rule 2004, repeat orders are allowed provided that the contract or contracts do not exceed three years in

duration and repeat orders should not exceed fifteen percent of the original procurement.

During audit of PSO for the year 2018-19, it was observed that the management awarded contract for Publication Service to M/s Octopus 360 Media (Pvt) Ltd for Rs 37.220 million extendable up to 3 years. The management, however, extended the contract beyond 3 years which resulted in irregular payment of Rs 7.6 million.

Audit is of the view that the award of contract beyond three years and payment of Rs 7.6 million was irregular.

The matter was reported to the PAO on November 5, 2019. The management in its reply dated December 19, 2019 stated that the above condition was not applicable as procurement was made under clause 36(b) of PPRA rules. The reply is not tenable as no such relaxation is offered under clause 36(b) of PPRA Rules. No further progress was reported till finalization of the report.

Audit recommends to investigate the matter to fix responsibility on person(s) at fault.

[DP No. 684/K]

**Defective Financial Management**

***2.4.6.13 Blockage of capital due to excessive import of HSD - Rs 17,684 million***

As per Para 2 & 3 of minutes of Product Review meeting dated September 10, 2018, DG (Oil) directed the OMCs that since HSD stock in the country was at high level of 29 days, the OMCs were to review import figures and bring them in line with 20 days storage/stock cover.

During audit of PSO for the FY 2018-19, it was observed that a quantity of 193.035 million litres of HSD, valuing Rs 17,684 million was imported in excess of mandatory requirement of 20 days stock fixed by OGRA and

resultantly, HSD stocks were maintained ranging from 27-34 days as per record pertaining to February, 2019 to June, 2019.

Audit is of the view that due to negligence, HSD was imported in excess of requirement which led to blockage of capital amounting to Rs 17,684 million.

The matter was reported to the PAO on November 05, 2019. No reply was reviewed till finalization of the report.

Audit recommends to investigate the matter and fix responsibility for excess import of HSD under intimation to Audit.

[DP No. 616/K]

**HR / Employees related irregularities**

### *2.4.6.14 Irregular appointments in violation of recruitment Rules – Rs 193.988 million*

According to Uniform Recruitment & Promotion Policy 2011, only those candidates securing 60% marks in the written tests are to be called for interview. 70% marks were allocated for the written test, 15% marks allocated for interview and 15% for performance evaluation record. Further, internal candidates shall be considered first. Moreover, according to Para 3.6 of HR Manual of PSO, candidates shortlisted during preliminary screening and successful in the test shall appear for interview. Furthermore, as per Section 14(1) of the Pakistan Citizenship Act, 1951, "if any person is a citizen of Pakistan under the provisions of this Act, and is at the same time a citizen or national of any other country he shall, unless he makes a declaration according to the laws of that other country renouncing his status as citizen or national thereof, ceases to be a citizen of Pakistan".

During audit of PSO for the FYs 2014-17, it was observed that the management violated its policy in appointment of GM (Finance), GM (HR), DGM (Projects) and DGM (infrastructure / construction). The major irregularities noticed in the recruitment process were:

(i) In most cases, the qualification required through advertisements did not match with job description;
(ii) No written tests were conducted for the posts;
(iii) In certain cases, appointee did not qualify in terms of qualifications as well as experience;
(iv) In two cases, the appointees were Canadian citizens but no declaration of revocation of foreign nationality was provided by them; and
(v) 17 posts were filled through direct recruitment and none of the internal employees were considered for promotion.

Audit is of the view that poor HR management resulted in irregular appointment and payment of salary of Rs 193.988 million.

The matter was reported to the PAO on October 26, 2018 and on December 07, 2018. The management in its reply dated December 19, 2019 stated that all the appointments were made as per prevailing policy. No suitable alternatives were available within the company, therefore, outside candidates were shortlisted by a third party as per Company Employment Policy.

The DAC in its meeting held on January 21, 2019 observed that certain appointments were made in contravention to the policy of the company and directed the Petroleum Division to probe into the matter under intimation to Audit. DAC also directed the management to provide a comprehensive reply on case to case basis. During verification of record in January 2020, the management provided inquiry reports against appointment of GM (Finance) and DGM (Projects). The finding of the inquiry reports concluded that the recommendation for hiring of both incumbents was not justified. No documents relating to other cases were produced. No further progress was reported till finalization of the report.

Audit recommends to take action against the responsible for irregular appointments besides recovering salary paid.

[DP No. 614/K]

## Others

### *2.4.6.15 Non-realization of distribution margin for non-upliftment of POL products by the outlets - Rs 1,165.27 million*

As per clause 6 of Dealership license Agreement – Monthly Sales "commencing from the effective date or other date notified by PSO to dealer by allotment of a code number or new code number, dealer undertakes that each month during the term of this Agreement, Dealer shall place Indents for such minimum quantities of each of the PSO Motor Fuels and Lubricating Oils as is prescribed by PSO in its sole discretion and is advised by PSO in writing to Dealer prior to the beginning of each month (the "Monthly Minimum"). Where PSO does not advise Dealer of the monthly minimum for any month, the monthly minimum applicable shall be that last advised by PSO to Dealer. Dealer shall be bound by the relevant monthly minimum, which forms a fundamental condition of this Agreement. If in any month during a quarter, dealer fails to purchase from PSO the relevant monthly minimum for any PSO Motor Fuels and Lubricating Oils that is not made up in the other months in that calendar quarter, Dealer shall be bound to pay PSO the distribution margin on the shortfall". Further, as per Sub Clause (vi) of Article 16.3 "PSO shall be entitled to terminate this Agreement by written notice to dealer immediately, "If dealer fails to place indents for the Monthly Minimum for any PSO POL products for a continuous period of 6 months". Further as per Sub clause (v) of Article 16.5 dealership license agreement, in case of termination by PSO for a dealer in event of default, pursuant to Article 16.3, PSO shall retain the security deposit.

During audit of PSO for the FYs 2017-19, it was observed that in 393 cases, the outlets failed to lift the minimum POL products but the management failed to recover the distribution margin of Rs 1,162.02 million from those outlets. Further, security deposits of Rs 3.250 in respect of 54 other outlets were available with the management of PSO and the outlets failed to lift the POL products. But the management neither took steps to ensure upliftment of POL nor terminated the agreements with these outlets. Consequently, inaction by the management resulted in non-encashment/non-retention of security deposits. All this resulted in non-recovery of distribution margin and non-encashment of security deposits aggregating to Rs 1,165.27 million **(Annex-7)**.

Audit is of the view that negligence of the management resulted in non-realization of distribution margin & non-encashment of security deposits amounting to Rs 1,165.27 million.

The matter was reported to the PAO from April to September, 2019. In DAC meeting dated December 24, 2019, the management explained that there are various reasons / ground realities which were considered by the management as well as the Board while reviewing targets and achievements thereof. DAC directed the management to get the record verified from Audit within a week. No further progress was reported finalization of the report.

Audit recommends to recover the distribution margin for non-uplifting the monthly minimum besides fixation of responsibility for non-initiation of action against the outlets.

[Annex-7]

***2.4.6.16 Non-imposition of penalty on the outlets - Rs 169.79 million***

As per Para 3(i) of Special Report No.4/2017 of Standing Committee on PNR, "OGRA should play its effective role in monitoring the outlets of OMCs for charging excess amount per litre". Further, as per para 4(iv) "OGRA should ensure that OMC's are not involved in giving their products to other OMC's petrol pumps. Heavy fine should be imposed in case of violation". Furthermore, according to SOP issued by PSO on December 03, 2018, "in case of 3rd quantity failure, credit facility of the outlet would be blocked for 7 days with 800 litres lube penalty in addition to mandatory uplifting". Moreover, as per Rule 39(2) of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, if the Authority is satisfied that a retail outlet of an oil marketing company is supplying substandard petroleum product or is failing to supply correct quantities of the petroleum products, the Authority may, by order in writing, direct the oil marketing company concerned to suspend supplies of the petroleum products to such retail outlet and thereupon such oil marketing company shall suspend supplies of the petroleum products to such retail outlet except as directed in such order or any subsequent order.

During audit of PSO for the FYs 2014-18, it was observed that in 227

cases, the outlets were involved in short selling of quantities of POL products and in 04 cases in over charging but the management failed to impose the penalty of Rs 156.79 million on those outlets. Moreover, in 13 other cases, the outlets were purchasing POL products of other OMCs but penalty of Rs 13.00 million was not imposed by PSO/OGRA. All this resulted in non-imposition of penalty of Rs 169.79 million **(Annex-8).**

Audit is of the view that negligence of the management resulted in non-imposition of penalty amounting to Rs 169.79 million.

The matter was reported to the PAO in May and June, 2019. In DAC meeting dated December 24, 2019, the management explained that the aim of PSO SOPs was to create deterrence of such incidents. DAC directed the management to get the record verified regarding imposition of penalty on over charging from audit within a week. Further progress was awaited till finalization of the report.

Audit recommends to fix responsibility for non-imposition of leviable penalty on the outlets for measurement of short quantities, over charging and purchase of POL products from other OMCs.

[Annex-8]

***2.4.6.17 Loss due to payment of demurrage on cargoes imported more than storage capacity - Rs 1,023.706 million***

According to Article VIII (i) & (ii) of general terms and conditions for C&F or CIF sales of petroleum products executed between KPC and PSO "the Buyer shall be liable to demurrage if he fail to discharge the Vessel within the Lay time and the demurrage shall be paid to seller at the rate specified in the agreement".

During audit of PSO for the FY 2018-19, it was observed that PSO paid demurrages amounting to Rs 1,023.706 million (US$ 7.500 million) to the POL products suppliers. For instance, demurrage amount of one vessel namely Dasma which waited more than one month came to US$ 506,641.67. The major reason

of payment of demurrage was non-availability of storage capacity as POL products were imported in excess of requirement. The details are as under:

| Sr. No. | Name of Supplier | Product | Amount (US$) | Amount (Rs) |
|---|---|---|---|---|
| 1 | Kuwait Petroleum | HSD | 3,337,610 | 405,819,968 |
| 2 | Kuwait Petroleum | HSD | 1,933,990 | 289,614,941 |
| 3 | Kuwait Petroleum | HSD | 1,869,445 | 278,734,270 |
| 4 | Totsa Total | PMG | 92,096 | 11,445,719 |
| 5 | Emirates National Oil | PMG | 144,615 | 21,619,943 |
| 6 | Mercuria | LSFO | 122,873 | 16,471,075 |
| **Total** | | | **7,500,629** | **1,023,705,916** |

Audit is of the view that poor planning in the scheduling of vessels and excess than required import by the by management resulted in demurrage charges of Rs 1,023.706 million.

The matter was reported to the PAO in November, 2019. The management in its reply dated December 19, 2019 stated that demurrages were an industry-wide issue and not specific to PSO because of infrastructure / port limitations. The reply is not tenable as PSO should have planned imports keeping in view its limitations to avoid loss of precious foreign exchange. No further progress was reported till finalization of the report.

Audit recommends an investigation into the matter for fixing responsibility for import in excess of storage capacity.

[DP No. 617/K]

### *2.4.6.18 Loss due to variation in sale and stock figures - Rs 250.429 million*

According to Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal controls, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety, objectivity, integrity and honesty and relationship with the stakeholders.

During audit of PSO for the FY 2017-18, it was observed that there was a variation of 2,732,601 litres in closing balances of PMG & HSD at Tarujabba

Depot, Peshawar at the end of financial year. This resulted in loss to the company amounting to Rs 250.429 million

Audit is of the view that weak internal controls led to variation in figures resulting in loss to the company.

The matter was reported to the PAO in October, 2019. The management replied that an entry of 3,690 litres of HSD transhipped to Kohare / Akora Khatak was not included in the sales. The reply was not tenable as a huge quantity of 2,732,601 litres valuing Rs 250.429 million was missing from the stock. During its meeting dated December 24, 2019, DAC directed the management to get the record verified from Audit within a week. No further progress was reported till finalization of the report.

Audit recommends to investigate the matter and recover the loss, besides improving internal controls and fixing responsibility on the persons at fault.

[DP No. 368]

***2.4.6.19 Non-settlement of insurance claims – Rs 90.745 million***

As per Section 166 of the Insurance Ordinance, 2000 "all insurance business relating to any public property or any risk or liability pertaining to any public property, shall be placed with NICL only and shall not be placed with any other insurer". Further, according to Rule 53(xii) of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rule, 2016, all licensees, in relation to their regulated activity, shall obtain and maintain insurance cover against any accident causing loss of life and property.

During audit of PSO for the FYs 2017-19, it was observed that a quantity of 281,082 litres POL products valuing Rs 28.108 million was lost in accidents but the loss could not be recouped because the management had not obtained any insurance cover. Further, insurance claims amounting to Rs 62.637 million were pending for settlement since June 30, 2017 with NICL.

Audit is of the view that negligence on part of management resulted in non-settlement of insurance obtaining insurance cover and non-settlement of outstanding insurance claims amounting to Rs 90.745 million.

The matter was reported to PAO in October, 2019. During the DAC meeting held on December 24, 2019, the management justified non-obtaining insurance cover stating that as per the applicable insurance rates, if PSO had obtained insurance coverage from NICL, it had to pay insurance premiums, which were many times more than the actual cost of the accidents. Hence, the management decided to absorb the accidental losses and by adopting the procedure, it had ended up with saving to the national exchequer. For pending insurance claims with NICL it was stated that the settlement was under process. Audit was of the view that as per section 166 of the Ordinance ibid, the management was liable to obtain insurance cover from NICL. DAC directed the management to get the record re-verified from Audit within a week. Further progress was awaited till finalization of the report.

Audit recommends to fix responsibility for non-obtaining insurance cover and for non-settlement of insurance claims.

[DP Nos. 278, 279, 284, 298 & 755]

### *2.4.6.20 Non-receipt of withheld stock - Rs 89.02 million*

According to Clause VII of Code of Corporate Governance, "The directors of listed companies shall exercise their powers and carry out their fiduciary duties with a sense of objective judgment and independence in the best interests of the listed company".

During audit of PSO for the FYs 2014-17, it was observed that PSO supplied 10,614.19 M. Tons of HSD to PRL in 2004 for onwards transportation to PARCO through its pipeline. However, only 2,197.58 Metric Tons were received by PARCO resulting in variation of 8,416.61 M. Tons valuing Rs 107.00 million. PARCO, on the basis of reconciliation carried out in 2009, reduced the difference to 3,838.12 M. Tons from 8,416.61 M. Tons. However, PSO contested the reconciliation and demanded reimbursement of full amount of Rs 107 million. Later on, PSO received Rs 17.986 million from PRL as full and final settlement against the claim of Rs 107 million. This resulted in a loss of Rs 89.02 million to PSO.

Audit is of the view that defective controls over transportation management resulted in loss of Rs 89.02 to the company.

The matter was reported to the PAO on November 5, 2018 and on December 07, 2018. The DAC in its meeting held on January 21, 2019 directed the management to pursue the matter vigorously. No further progress was reported till finalization of the report.

Audit recommends that the amount of the loss may be recovered from PRL with interest.

[DP No. 613/K]

### *2.4.6.21 Non-enhancement of storage capacity - Rs 41.73 million*

According to Rule 28 of Pakistan Oil Refinery, Transportation, Storage and Marketing Rules, 2016, no person shall construct or operate any oil storage facility or undertake storage of oil for the purpose of commercial storage of crude oil or petroleum products without obtaining license from the authority. Further, OGRA vide letter No. OGRA (04)193(i)/208xv dated February 04, 2019 imposed ban on PSO to acquire NOC from AC/DC for opening retail outlets in Punjab.

During audit of PSO for the FY 2017-18, it was observed that 37 No Objection Certificates of regional offices of Bahawalpur, Gujranwala, Sahiwal, Jhelum and Peshawar were pending with concerned AC's / DC's for opening of new retail outlets of PSO due to ban imposed by OGRA for want of enhancement of storage capacity in Punjab. This resulted in loss of market share and government was deprived of revenue to the tune of Rs 41.73 million.

Audit is of the view that non enhancement of storage capacity resulted in persistent loss of revenue to the government and decrease in market share for the company.

The matter was reported to the PAO on September 25, 2019. In DAC meeting dated December 24, 2019, the management explained that PSO being largest oil marketing company has more than half of industry POL storage capacity (Petrol 45 days, Diesel 80 days) which is more than the requisite

quantity as per petroleum rules. Moreover, PSO has requested OGRA to lift the ban as it was hurting the expansion of company's retail outlets. DAC directed the management to pursue the matter with OGRA through Petroleum Division and get the requisite record verified by Audit within a week. Further progress was awaited till finalization of the report.

Audit recommends an investigation into inaction on the part of management to take concrete steps in enhancing storage capacity in Punjab.

[DP Nos. 277, 282, 286, 293 & 332]

### *2.4.6.22 Non-imposition of penalty – Rs 3,300 million*

As per Rule 69 (1&2) of Pakistan Oil (Refining, Blending, Transportation, Storage And Marketing) Rules, 2016, a person, who contravenes any provisions of the Ordinance, these rules, terms and conditions of the license, or the decisions of the Authority shall be punishable with fine which may extend to ten million rupees and in case of a continuing contravention with a further fine which may extend to one million rupees for every day during which such contravention continues. In imposing any fine under these rules, the Authority shall keep in view the principle of proportionality of the fine to the gravity of the contravention. Prior to imposing the fine, the Authority shall, in writing, require the person liable to be affected to show-cause in writing as to why the fine may not be imposed

During audit of PSO for the FYs 2017-18, it was observed that the management of Bahawalpur, Gujranwala, Sahiwal Jehlum and Peshawar divisional offices cancelled licenses of 330 petrol pumps using unlawfully logo of PSO and took the matter with concerned district authorities / OGRA for closure of these pumps. However, neither district authorities nor OGRA took action for closure of these pumps. Further, fine of Rs 3,300 million was neither imposed nor recovered from these outlets.

Audit is of the view that negligence of the management resulted in non-realization of fine aggregating amounting to Rs 3,300 million.

The matter was reported to the PAO on September 25, 2019. The DAC in its meeting held on December 24, 2019 directed the management to take up the matter with OGRA through Petroleum Division regarding recovery from unlawful pumps. DAC further directed to share with Audit record showing efforts made for closures of unlawful petrol pumps and imposition of penalty within a week. No further progress was reported till finalization of the report.

Audit recommends that the divisional offices may pursue the matter vigorously with AC/DC of the relevant districts and OGRA for closure of unlawful pumps working under its jurisdiction and recover the applicable fine.

[DP Nos. 276, 283, 288, 292 & 333]

## 2.5 Sui Northern Gas Pipelines Limited

### 2.5.1 Introduction

Sui Northern Gas Pipelines Limited (SNGPL) was incorporated as a private limited company in 1963. It was converted into a public limited company in January 1964 under the Companies Act 1913 (now Companies Act, 2017). The Company is listed in Pakistan Stock Exchange Limited. It is involved in the business of purchase, transmission, distribution and supply of natural gas. Shares directly held by GoP are 31.68%. However, direct and indirect shareholding of GoP is more than 58.14%. SNGPL is Pakistan's largest gas company serving more than 6.337 million consumers in northern and central Pakistan through an extensive network of pipeline (137,052 KMs) in Punjab, Khyber Pakhtunkhwa and Azad Jammu & Kashmir.

SNGPL is facing the problems of unabated UFG losses, non-finalization of GSPA for RLNG with GPPs / IPPs and accumulation of huge payables especially against RLNG. Due to aggravated demand supply gap of RLNG, SNGPL is confronted with issue of selling RLNG by identifying new consumers.

### 2.5.2 Comments on Audited Accounts

The working results of the Company for the years 2017-18 as compared to the previous years are tabulated below:

(Rs in million)

| | 2017-18 | % Inc/ (Dec) | 2016-17 | % Inc/ (Dec) | 2015-16 |
|---|---|---|---|---|---|
| Gas (including RLNG) Sales Volume (MMCF) | 841,381 | 36.81 | 615,003 | 14.97 | 534,922 |
| Gas sales value | 446,765.837 | 39.75 | 319,696.374 | 33.51 | 239,636.17 |
| Add/ (less) Differential | 57,016.553 | 114 | 26,611.910 | 139.53 | 11,010.42 |
| **Net sales** | **503,782.390** | **45.47** | **346,308.284** | **38.17** | **250,646.59** |
| Cost of gas sold | 476,785.651 | 45.98 | 326,609.632 | 32.54 | 246,424.17 |
| **Gross profit** | **26,996.739** | **37.05** | **19,698.652** | **366.53** | **4,222.42** |
| Other Income | 14,159.487 | 28.80 | 10,992.947 | (7.60) | 11,896.99 |
| Operating cost | 12,248.552 | 1.46 | 12,072.161 | 3.75 | 11,635.40 |

| Operating profit | 26,281.56 | 46.91 | 17,889.72 | 319.64 | 4,263.13 |
|---|---|---|---|---|---|
| Finance cost | 10,806.155 | 102 | 5,350.520 | 21.53 | 4,402.74 |
| Other operating expenses | 2,626.118 | 259.88 | 729.719 | 230.38 | 220.87 |
| **Profit (Loss) before taxation** | **15,475.401** | **23.42** | **12,539.199** | **9,081.59** | **(139.61)** |
| Taxation | 4,353.926 | 10.94 | 3,924.699 | 1,588.77 | (263.62) |
| **Profit (Loss) for the year** | **11,121.475** | **29.10** | **8,614.500** | **2236** | **(403.23)** |
| Earnings per share (EPS) – (Rs ) | 17.54 | 29.16 | 13.58 | 6,690.00 | 0.20 |

(Source: Annual Audited Accounts)

i. The sales volume of the company increased by 38% in 2017-18 as compared to previous year which was mainly due to increase in RLNG sales whereas sales of indigenous gas decreased by 12.65%. The operating cost showed slight increase but finance cost and other operating expenses increased by 102 % and 259% respectively. It means that management had been able to control its operating cost but the management failed to control finance cost and other operating expenses besides decrease in sales of indigenous gas which needs justification.

ii. As per FRR 2017-18, OGRA allowed an addition in fixed assets amounting to Rs 17,638 million for natural gas and Rs 16,679 million for RLNG aggregating to Rs 34,308 million. The audited annual accounts showed an addition in fixed assets of Rs 47,760.232 million which showed an increase of Rs 13,452 million over the addition allowed by OGRA which is misleading for stake holders. This needs to be justified and reconciled besides taking remedial action.

iii. Trade debts of the Company receivable from different stake holders were Rs 66,314.600 million at the end of 2017-18. Out of this an amount of Rs 25,658.877 million was unsecured being 38.69% of total outstanding trade debts. Further, these debts also included an amount of Rs 21,202.850 million which had been considered doubtful i.e. 31.97% of the total receivable as on June 30, 2018. The year-wise analysis is needed to be prepared to see its chances of recovery and explain the reasons of unsecured debts and high percentage of doubtful debts.

iv. The external auditors had accorded a qualified opinion on the accounts of SNGPL for the year 2017-18 because the company had recognized an aggregate net revenue of Rs 17,178 million on account of 'Take or Pay' arrangements with certain consumers. These amounts have been disagreed and disputed by the said consumers. Therefore, the recognition of revenue was considered a departure from accounting and reporting standards as applicable in Pakistan. This needed justification and remedial action.

v. Operating fixed assets stood at Rs 194,442 million as on June 30, 2018. The stock check / verification was required to be done on 100% basis and the consequent Stock Check Report should be signed by the Auditor / Finance Representative and Store Incharge. As such physical verification of such assets was not carried out as yet. In the absence of physical verification the existence of such assets was open to doubt. Needful is required to be done expeditiously.

vi. The trade and other payables increased to Rs 207,456 million in FY 2017-18 from Rs 108,421 million in FY 2016-17 registering an increase of 91% which is needed to be justified.

vii. Accrued liabilities of Rs 11,675.679 million (2017: Rs 11,469.551 million) and Mobilization and other advances of Rs 3,185.518 million (2017: Rs 3,351.528 million) remained stagnant and showed no improvement in the shape of adjustments / payments which needs to be expedited.

viii. OGRA determined profit shortfall of Rs 49,329 million as per FRR for the FY 2017-18 whereas in the Annual Reports the SNGPL incorporated Rs 56,837 million as shortfall on indigenous gas. This caused excess reporting of shortfall in annual accounts by Rs 7,508 million, impairing the true and fair view and veracity of accounts.

### 2.5.3 Classified Summary of Audit Observations

Audit observations amounting to Rs 346,155.415 million were raised in this report during the current audit of SNGPL. This amount also includes recoveries of Rs 83,389.809 million as pointed out by the Audit. Summary of the audit observations classified by nature is as follows:

## 2.5.4 Overview of Audit Observations

(Rs in million)

| Sr. No. | Classification | Amount |
|---|---|---|
| 1 | Non production of record (1 para) | - |
| 2 | Irregularities | - |
| A | HR / Employees related irregularities | 2,980.900 |
| B | UFG losses | 27,720.379 |
| C | Receivables Management | 58,559.996 |
| D | RLNG related issues | 160,836.407 |
| E | Procurement related irregularities | 8,322.498 |
| F | Project Management | 31,666.010 |
| G | Regulatory Affairs | 30,646.889 |
| 3 | Value for money and service delivery issues | 705.160 |
| 4 | Others | 24,717.176 |

## 2.5.5 Compliance of PAC Directives

| Audit Year | Total Paras | Full compliance | Partial compliance | Pending Paras | Percentage of compliance |
|---|---|---|---|---|---|
| 1991-92 | 15 | 09 | 06 | 390,392,393,394,395, 400 | 60 |
| 1992-93 | 16 | 15 | 01 | 43 | 94 |
| 1993-94 | 12 | 10 | 02 | 33,34 | 83 |
| 1995-96 | 10 | 08 | 02 | 45,50 | 80 |
| 1996-97 | 16 | 15 | 01 | 38 | 94 |
| 1998-99 | 10 | 09 | 01 | 157 | 90 |
| 2000-01 | 20 | 15 | 05 | 207,208,213,217,218 | 75 |
| 2001-02 | 09 | 06 | 03 | 201,204,206 | 67 |
| 2003-04 | 07 | 06 | 01 | 173 | 86 |
| 2006-07 | 12 | 10 | 02 | 166,167 | 83 |
| 2007-08 | 18 | 15 | 03 | 130,131,137.4 | 83 |
| 2008-09 | 22 | 20 | 02 | 185,186 | 91 |
| 2009-10 | 11 | 10 | 1 | 191.9 | 92 |
| 2010-11 | 55 | 35 | 20 | 18.5.4.1, 18.5.4.2, 18.5.4.3, 18.5.4.4, 18.5.4.5, 18.5.4.7, 18.5.4.8, 18.5.4.11, 18.5.4.15, 18.5.4.16, 18.5.4.17, 18.5.4.23, 18.5.4.19, 18.5.4.19&18.5.4.9, 18.5.4.20, 18.5.4.22, | 64 |

| | | | | 18.5.4.23, 18.5.4.25, 18.5.4.29 | |
|---|---|---|---|---|---|
| 2013-14 | 19 | 12 | 07 | 13.7.2.4, 13.7.2.8, 13.7.4.2, 13.7.2.5, 13.7.2.10, 13.7.4.4, 13.7.4.6 | 63 |
| 2016-17 | 41 | 30 | 11 | 13.8.4.11,13.8.2.15,13 .8.4.13, 13.8.4.16,13.8.4.3, 13.8.2.13, 13.8.1&13.8.2, 3.8.2.16,13.8.2.17, ,13.8.3,13.8.4.2 | 73 |
| **Total** | **293** | **225** | **68** | | **77%** |

Overall compliance of PAC directives was not satisfactory which needs immediate attention of the Principal Accounting Officer (PAO).

## 2.5.6 Audit Paras

### *2.5.6.1 Non-Production of record*

Section 14(2) of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001 states that the officer in-charge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete form as possible and with all reasonable expedition. Further the Public Accounts Committee directives, issued vide OM No.F-10(1)/2000/2004-PAC dated June 3, 2004 requires all PAOs Ministry/Divisions to make available all information/record to Audit as and when required by them, otherwise disciplinary action will be initiated against person(s) responsible for the delay under Section-14(2) of the Auditor General's Ordinance No. XXIII of 2001.

During audit of SNGPL for the FY 2018-19, the following record / information was requisitioned for audit scrutiny but the same was not produced despite repeated verbal / written requests and visits **(Annex-9).**

| Sr. No. | Requisition No. | Sr. No. of requisition | Description of record/ information |
|---|---|---|---|
| 1 | 01 | 10 | Draft Annual Accounts (Management Accounts) for 2018-19 |

| 2 | 01 | 11 | Trial Balance(soft form)for the year ending on June 30, 2019 |
|---|---|---|---|
| 3 | 03 | 11 | Record / Detail of vouchers received from regional offices over / above Rs 1.8 million |

Audit is of the view that non-production of record and refusal to provide the record/information was violation of Section 14(2) of the Auditor General's Ordinance 2001, and the directives of PAC. This attitude of the management is tantamount to concealment of facts due to which authenticity of expenditure could not be ascertained.

The matter was reported to the PAO in December 19, 2019.

The management in DAC meeting held on January 16, 2020 stated that out of 25 cases, record relating to 18 cases was provided whereas record relating to 7 cases was not provided. DAC directed the management to provide the remaining record expeditiously. No further progress was reported till finalization of the report.

Audit recommends that requisite auditable record be produced immediately, besides fixing responsibility.

[DP No. 877]

**HR / Employee Related Irregularities**

***2.5.6.2 Unjustified increase in HR cost over the years***

As per Rule 17(h) of Natural Gas Tariff Rules provides " tariff should generally be determined taking into account a rate of return as provided in the license, a prudent operation and maintenance costs, depreciation, government levies and if applicable financial charges and cost of natural gas". As per 3.3.6 of FRR for the FY 2017-18 and Para 3.4.1 of ERR 2018-19, interveners raised substantive points "regarding lavish increase in HR cost which was ultimately borne by the consumers. The increase in their HR cost is not balanced w.r.t. the remuneration of Government employees as well as other utility companies. Salaries & allowances / other perquisites were needed to be fixed at reasonable level and linked with performance". Moreover, vide Para 10.1.6 of FRR

2017-18, OGRA also directed the management to rationalize the pay and prerequisites of all the cadres on justifiable basis.

During audit of SNGPL for the FY 2018-19, it was observed that HR cost determined by the management as per approved HR cost benchmark in Final Revenue Requirements has increased drastically over the years as compared below:

(Rs in million)

| Head of Account | *ERR 2018-19 | ERR 2017-18 | FRR 2016-17 | FRR 2015-16 | FRR 2014-15 | FRR 2013-14 | FRR 2012-13 | FRR 2011-12 | FRR 2010-11 |
|---|---|---|---|---|---|---|---|---|---|
| HR Cost determined | 15,206 *Inc. 106% | 14,961 | 14,022 | 12,759 | 10,553 | 10,487 | 8,323 | 8,012 | 7,370 |
| Number of Consumers | 6,336,589 Inc. 61% | 6,036,589 | 5,645,885 | 5,315,885 | 5,054,256 | 4,799,015 | 4,505,493 | 4,219,279 | 3,964,530 |
| Network in KMs | 137,052 Inc. 53% | 128,889 | 118,728 | 111,798 | 107,670 | 104,320 | 100,988 | 96,655 | 89,441 |
| Sales NG (MMCF) | 447,155 Dec. 23% | 442,557 | 443,649 | 446,944 | 467,449 | 506,355 | 552,272 | 597,056 | 581,935 |
| Sales RLNG (MMCF) | 427,381 | 460,874 | 443,649 | 97,671 | - | - | - | - | - |

* Base year 2010-11

Audit is of the view that HR cost is multiplied twice whereas number of consumers and network in Km has increased by only 61 % and 53 % respectively. Sales of natural gas in MMCF has a decreasing trend from 2014-15 onwards and currently decreased by 23 % from FY 2010-11. Hence, HR cost was determined on higher side to the tune of Rs 31,583 million **(Annex-10)** based on actual increase in the aforesaid parameters. Finally, it was concluded that parameters of HR cost benchmark approved by OGRA were relatively on higher side resulting in ever increasing HR cost year by year. Further, 100 % allocation of HR cost to NG consumers was unjustified considering the fact that sales of RLNG and network for RLNG were increasing every year.

The matter was reported to the PAO on September 25, 2019 and the management replied that the pay structure of both executive and subordinate staff was approved by the Board of Directors while remaining within the HR cost benchmark allowed by OGRA. The reply of the management is not tenable because the SNGPL is a gas utility company and its pay structure should be fixed in comparison with other utility companies like DISCOs working under other

regulator i.e. NEPRA under regulated regimes. Increase in HR cost resulted in ultimate burden on the end consumers. Moreover, the management did not implement the directive of OGRA regarding rationalization of pay and perks of all the cadres on justifiable basis.

The DAC in its meeting held on January 16, 2020 directed the Petroleum Division to look into the matter with a view to rationalize the HR cost in the light of parameters approved by OGRA as indicated in audit observation and in comparison with other utility companies working under regulated regime within three months. DAC further directed to take up the matter with OGRA for allocation of HR cost to RLNG consumers proportionately. No further progress was reported till finalization of the report.

Audit recommends the Petroleum Division to look into the matter with a view to rationalize the increasing HR cost of gas utility company in comparison with other utility companies working under the regulated regimes and also implement OGRA's directive besides allocating HR cost to RLNG consumers proportionately from FY 2015-16 onwards.

[DP Nos. 518 & 873]

### *2.5.6.3 Excess determination of HR cost on account of club membership / subscription and tea / coffee – Rs 115.640 million*

According to Para 8.3.5 of ERR for the FY(s) 2016-17 & 2017-18, OGRA directed SNGPL to submit, at the time of FRR, HR certificate duly signed by its statutory auditors that HR cost assigned to T&D cost is relevant for the operating activities, based on fair allocations and comprises only the salaries of its regular employees.

During audit of SNGPL for the FY 2018-19, it was observed that the management included an amount of Rs 115.640 million on account of club membership / subscription and tea and coffee in the HR cost determined in FRR for the FY 2018-19. Expenditure on account of club membership / subscription, tea and coffee of executives is not relevant to operating activities and should be borne by the Company itself rather passing it on to the consumers.

Audit is of the view that club membership / subscription, tea and coffee is not relevant with core operating activities and required to be excluded from HR cost for determination of revenue requirement purpose.

The matter was reported to the PAO on November 29, 2019.

In DAC meeting held on January 16, 2020 management explained that payments of club membership were part of perquisites and privileges duly approved by the BoD and as such part of HR cost as per the benchmark approved by OGRA. Audit pointed out that the expense on club membership / subscription and tea / coffee was not relevant with core operating activities and was required to be excluded from HR cost for determination of FRR purpose.

The DAC directed the management to provide the detail of club membership fee / subscription paid (employee-wise) during the financial year 2018-19. Further DAC directed the management to review the possibility for excluding the amount of tea / coffee from HR cost benchmark and its incurrence from other head of account i.e. entertainment. No further progress was reported till finalization of the report.

Audit recommends to exclude the cost of club membership / subscription and tea / coffee from HR cost in FRR 2018-19 and ERR 2019-20 besides making corresponding adjustments in revenue requirement.

[DP Nos. 515&524]

### *2.5.6.4 Increase in HR cost due to incorrect inclusion of 10-C Bonus in HR Cost - Rs 837 million*

According to the Industrial and Commercial Employment (Standing Orders) Ordinance, 1968, 10-C bonus shall be paid by every employer making profit in any year to the workmen who have been in his employment in that year for a continuous period of not less than ninety days in addition to the wages payable to such workman. The amount of the bonus payable shall be not less than the aggregate of one month’s wages of the workmen employed, be not less than the amount of such aggregate, subject to the maximum of thirty percent of

such profit and if the amount of the profit is less than the aggregate referred to above be not less than fifteen percent of such profit.

During audit of SNGPL for the FY 2018-19, it was observed that 10-C bonus of Rs 837 million was incorrectly included in the HR cost as operating expenditure for the purpose of determination of ERR for the FY 2018-19 without making these payments to labour. This was because the labour laws had been devolved to the provinces and Punjab Government had not yet made their workers welfare laws. Hence, neither any payment of bonus was being made to employees nor any provision for future payments were made in the audited accounts for the FY 2017-18. Hence, inclusion of 10-C bonus in HR cost was not correct resulting in overstatement of the HR cost.

Audit is of the view that as the payment of 10-C bonus is not required as per law until Punjab Government introduces workers welfare laws, it should not be included in HR cost / operating expenditure for the purpose of determination of FRR by OGRA.

The matter was reported to the PAO on September 25, 2019.The management replied that after 18th Amendment workers welfare laws have not been framed by the Punjab Government therefore the Federal law remained applicable pursuant to Article 270 AA (6) of the constitution as per opinion sought from legal counsel of the company. The reply is not tenable because neither any payment was made to labour in previous year nor any provision was made in the annual accounts. No further progress was reported till finalization of the report.

Audit recommends that excess HR cost to the extent of 10-C bonus be adjusted in next FRR or the proof of payment to employees and provision for future payments in the accounts be provided.

[DP No. 520]

***2.5.6.5 Non-surrendering of saving in HR Cost - Rs 539.280 million***

According to Para 4.2.4 of annual report 2005-06 read with para 4.2.9 of annual report 2017-18 of OGRA, the Authority introduced HR cost benchmark

to be determined on the basis of parameters; 50% of Consumer Price Index (CPI), number of consumers (65%), network in KMs (25%) and Sales (10%). Savings or excess in HR cost will be shared equally between the companies and consumers.

During audit of SNGPL for the FY 2018-19, it was observed that OGRA approved Rs 15,206 million as HR cost in the FRR for the FY 2018-19. The management incurred an expense of Rs 14,127.441 million only thus, recording saving of Rs 1,078.559 million. As per the direction of OGRA, 50% of this saving would be surrendered to OGRA for deduction from the HR cost benchmark under the FRR for FY 2018-19. SNGPL however did not surrender the saving of Rs 539.280 million in the petition for the FRR 2018-19 for the FY 2018-19.

Audit is of the view that negligence of management resulted in non-surrendering of saving in HR cost of Rs 539.280 million.

The matter was reported to the PAO in December, 2019. The management stated in a DAC meeting held on January 16, 2020 that the HR benchmark at year end was calculated Rs 15,143 million. Moreover, the financial statements of the Company for the year 2018-19 were also not finalized yet. Audit pointed out that as per pay roll record, the company actually incurred HR cost of Rs 14,127.441 million by excluding HR related expenditure of Rs 1,309.000 million capitalized for Distribution Development Jobs, resultantly there was a saving of Rs 1,078.559 million. Therefore, the company was required to deposit the 50% of the saving (Rs 539.280 million) to OGRA. The management promised to surrender the savings at the time of FRR 2018-19.

The DAC directed the management to provide the schedule of HR Cost for the FY 2018-19 to Audit showing calculation of savings. No further progress was reported till finalization of the report.

Audit recommends to surrender the savings in HR cost in FRR 2018-19.

[DP No.771]

### *2.5.6.6 Non-inclusion of free gas facility in HR cost benchmark – Rs 403.47 million*

According to Para 8.4.8 of ERR for the FY 2018-19 dated June 21, 2018 the OGRA directed to ensure that no HR related cost in respect of petitioner's employees has been booked in any other head of account. Further, according to Para 5.4.3 of review against Authority determination of motion for review of FRR, 2016-17, the Authority had directed that BoD may revisit policy of allowing free gas on quantitative basis in view of exorbitant increase in gas prices from the time it was first offered till to date or at least put cap on the value of free gas facility. This allocation in quantitative terms leads to highly inefficient use of a valuable resource.

During audit of SNGPL for the FY 2018-19, it was observed that cost of free gas facility provided to employees as part of their perquisites and privileges was not being included in HR cost benchmark rather the same was treated as gas internally consumed which was another expense head than HR cost. Due to non-inclusion of cost of free gas facility provided to employees including gas used in the colonies of Rs 214.131 million and Rs 189.339 million for the FYs 2017-18 and 2018-19 respectively, the HR cost benchmark was understated leaving cushion for accommodating other exorbitant HR costs. Further, the management did not maintain any capping on value of free gas facility in compliance of OGRA's direction and continued provision of gas on quantitative basis i.e. 5 $HM^3$ per month.

Audit is of the view that weak managerial controls resulted in violation of OGRA directive and irregular provision of gas without any capping and inclusion of FGF of Rs 403.47 million in Gas Internally Consumed instead of HR cost benchmark.

The matter was reported to the PAO in December, 2019. In DAC meeting held on January 16, 2020 management explained that the FGF relates to HR Cost and the same would be incorporated in the final revenue requirement for financial year 2018-19 as part of HR cost. However, matter relating to capping of FGF in compliance of OGRA's directives was not negotiated in the recently finalized CBA agreement. Audit added that BoD also directed on 19.03.2019 the

management to negotiate the capping of FGF in coming CBA agreement which was not done.

The DAC directed the management to provide the HR cost schedule showing inclusion of free gas facility and gas used in SNGPL residential colonies within three days. DAC further directed the management to place the matter before BoD regarding non-observance of its directive for negotiation of capping of free gas facility within one month and directed the management to ensure capping of free gas facility in the next CBA agreement. No further progress was reported till finalization of the report.

Audit recommends to include the FGF provided to employees in HR cost besides ensuring capping of FGF on monetary terms as per OGRA's directive.

[DP Nos. 782 & 852]

### *2.5.6.7 Excess payment on account of CPI in violation of OGRA direction - Rs 285.119 million*

According to Para 4.2.4 of annual report 2005-06 read with Para 4.2.9 of annual report 2017-18 of OGRA, the Authority observed that the HR cost had increased sharply during the last ten years and introduced HR Cost Benchmark to be determined on the basis of parameters, 50% of Consumer Price Index (CPI), number of consumers (65%), network in KMs (25%) and Sales (10%).

During audit of, SNGPL for the FY 2018-19, it was observed that management claimed HR cost by awarding increment to its executive employees at 100 % CPI factor instead of 50% as allowed by OGRA. This increment given in contravention of OGRA's decision resulted in payment of Rs 285.119 million to 1,463 executive employees against the capping of Rs 287 million on account of CPI in ERR for the FY 2018-19 thus leaving no cushion for subordinate staff on this account. Annual increase was being given to subordinate staff through CBA agreement and its effect was added separately as CBA increase in HR cost benchmark of the year in which CBA agreement was finalized. Whereas increase given to subordinate staff should have been met from the CPI parameter in HR cost benchmark of respective year.

Audit is of the view that the practice of allocating almost the entire amount of CPI to executives employees during one year, while deferring the increase to subordinate staff to the next year, was not judicious.

The matter was reported to the PAO in December, 2019. The management replied that CPI declared by Government of Pakistan for the FY 2017-18 was 3.92% and as per policy 100% CPI factor was awarded to the executives of SNGPL. The reply is not tenable because OGRA introduced HR cost benchmark based on parameters including 50% of CPI, which was meant for the entire employees of the company during a year.

The DAC in its meeting held on January 16, 2020 directed the management to place the matter before the BoD for reviewing the policy of 100% CPI in the light of audit observation and outcome may be shared with Audit. No further progress was reported till finalization of the report.

Audit recommends to discontinue the practice of awarding 100 % CPI by revising the HR manual in conformity with instructions of OGRA and extend benefit of 50 % CPI to all employees both the executives and subordinates for the FY 2018-19.

[DP No. 859 ]

### *2.5.6.8 Unjustified payment of overtime beyond 25% limit - Rs 523.911 million*

According to Para 1.14(13) of Admin Manual of SNGPL, all Heads/Regional Heads, Incharge of Transmission offices, Workshops etc. shall ensure that in no way, the annual expense against overtime payments exceed the budgetary limit of 25%. For this purpose, all concerned are required to put in place a system requiring all staff reporting to them to complete their official work during notified timings and also that duties are assigned to them in a manner that all members of staff are fully occupied during working hours so as to eliminate possibility of performance of work slipping over into extra time.

During audit of SNGPL for FY 2018-19, it was observed that HOD of twelve departments failed to put in place the system in order to avoid overtime more than 25% of basic salary. Consequently, the management allowed overtime

upto 85% of the basic pay and made excess payment of Rs 523.911 million above permissible limit.

Further, management had granted overtime to 261 employees with payment ranging from 70% to 253% of their basic pay. The reasons for payment of overtime however, were not recorded which rendered these payment unjustified. Furthermore, 24 employees were shown working at Kacha Khoh and Pholnagar camps whereas both these camps were not operational during FY 2018-19 thus making the whole payment doubtful.

Audit is of the view that negligence and inefficiency on the part of management resulted in irregular payment of overtime and loss to the company.

The matter was reported to the PAO in September, 2019. The management stated a circular was issued to control the overtime and restrict the departmental overtime. However, as per actual need, respective departments can seek management approval beyond the bar of 25%. The reply is not tenable because overtime payments in excess of prescribed limits (upto 85% of basic salary) were being made as a routine and on regular basis. No further progress was reported till finalization of the report.

Audit recommends to inquire into the matter relating to payment of overtime exceeding limit, besides improving controls to ensure compliance of rules in future.

[DP No. 486, 529, 542, 770 & 849]

#### *2.5.6.9 Non-deduction of income tax due to non-inclusion of perquisites in salary - Rs 115.59 million*

According to Section 12 & 13 of Income Tax Ordinance, 2001, salary means any amount received by an employee from any employment, whether of a revenue or capital nature, including the amount of any allowance provided by an employer to an employee including a cost of living, subsistence, rent, utilities, education, entertainment or travel allowance, any perquisite, whether convertible to money or not and salary of driver provided to employee. Where, in a tax year, the services of a housekeeper, driver, gardener or other domestic assistant is

provided by an employer to an employee, the amount chargeable to tax to the employee under the head "Salary" for that year shall include the total salary paid to the domestic assistant in that year for services rendered to the employee.

During audit of SNGPL for FY 2018-19, it was observed that management did not deduct the income tax on all perquisites i.e. fuel re-imbursement, free gas facility and driver's salaries etc. while making payments of salaries to employees amounting to Rs 1,489.288 million. These amounts were required to be added in salary for working out relevant income tax slab in accordance with the Ordinance. This resulted in short deduction of income tax to tune of Rs 115.59 million.

Audit is of the view that negligence of management resulted in non-inclusion of perquisite in salaries while deducting income tax.

The matter was reported to the PAO in September, 2019. The management stated that free gas facility, amount of scholarships and 5% of the value of the company maintained vehicle provided to grade VII and above were already included in the salary of the employees. However on Hajj expenses paid by the company and gifts given to employees after retirement as a farewell, no income tax was withheld u/s 149 of Income Tax Ordinance 2001.The reply of the management is not tenable because no documentary evidence of deduction of tax were provided and amounts of fuel re-imbursement, driver salaries and other perquisites were not included in the salaries for the purpose of income tax. No further progress was reported till finalization of the report.

Audit recommends to ensure the inclusion of all perquisites in salaries of employees for recovery of income tax from the employees for the FY 2018-19.

[DP No.480, 497, 767& 851 ]

### *2.5.6.10 Non-deposit of EOBI contribution - Rs 160.89 million*

According to Section 1(4)(i) read with section 3 read with section 9A / 9B of Employee Old Age Benefits Act, 1976, every industry or establishment, wherein five or more are employed by employer, shall be insured in the manner prescribed under this Act. Further according to Circular No. 01/2015-16 dated

01.03.2016, the employer's share of contribution. i.e., 5% of the minimum wages shall be Rs 650 per insured person per month i.e. 1st July, 2015. The employee's share of contribution, i.e. 1% of minimum wages shall be Rs 130 per insured person per month w.e.f. 1st July, 2015. According to Section 10 of the Act ibid, every employer shall keep such record and shall submit to Institution returns at prescribed time and manner.

During audit of SNGPL for the FY 2018-19, it was observed that management deducted EOBI contribution from employees but failed to deposit total deductions and its own contribution to EOBI. This resulted in non-deposit of EOBI contribution amounting to Rs 160.89 million. Further, in case of 2,843 casual labour, neither any casual labour was got registered nor any amount of EOBI contribution was deposited, yet deductions were made while making payments to casual labour.

Audit is of the view that due to weak financial control, EOBI contributions amounting to Rs 160.89 million could not be deposited.

The matter was reported to the PAO in December, 2019. The management replied that the honourable Supreme Court of Pakistan had set aside the increase in the minimum wage rates being an unconstitutional amendment through the Finance Act of 2008. Consequently, the minimum wage dropped back to Rs 8,000 per month for the purposes of EOBI contribution, however liability was continued to be created in the books of accounts according to revised wages along with arrears. The reply was not tenable because the contribution to EOBI of Rs 160.89 million was not deposited. No evidence of registration and deposit of EOBI contribution relating to 2843 casual employees was provided.

Audit recommends to deposit the EOBI contribution deducted from employees and get all the casual employees registered with EOBI besides fixing responsibility for this lapse.

[DP Nos. 722, 850 & 855]

**UFG Losses**

### *2.5.6.11 Wasteful expenditure on UFG control related activities – Rs 4,550 million*

According to Section III of UFG study (approved by OGRA and circulated to SNGPL for execution), to address the issue of UFG losses, a structured UFG management and control strategy has been formulated and a set of 30 Key Monitoring Indicators (KMIs) have been introduced. Furthermore, the annual UFG allowance is linked to the achievement of these KMIs. Further, KMI 1 & 2 requires identification of 10 high UFG prone areas for segmentation and installation of check meters for reconciliation and better measurement of gas received and sold in the segmented areas. In case of theft of gas, KMI 23-24 requires filling of recovery suits and trial on the basis of FIR. OGRA further advised the company to provide the breakdown of UFG components for its quantification as per UFG study report.

During audit of SNGPL for the FY 2018-19, it was observed that the management failed to control the UFG losses despite incurring an expenditure of Rs 4,550 million for system rehabilitation & UFG control and KMIs implementation related activities for the FY 2017-18 and 2018-19 as given below:

(Rs in million)

| FY | UFG losses in MMCF | % age of UFG losses | Amount of UFG losses | Budget utilized |
|---|---|---|---|---|
| 2017-18 | 49,889 | 10.93% | 17,651.725 | 2,295 |
| 2018-19 | 56,345 | 10.87 % | 23,735.331 | 2,255 |
| **Increase / (decrease)** | **6,456** | **(0.06%)** | **6,083.606** | **4,550** |

Source: FRR / ERR 2017-18 and 2018-19 finalized by OGRA

UFG losses at overall company level increased by 6,456 MMCF and UFG losses were also increased in monetary term amounting to Rs 6,083.606 million. Moreover, the management did not implement the metering related KMIs and check meters were not installed in 10 high UFG prone areas for better visibility and reconciliation.

Further, the management did not provide the breakdown of UFG components for quantification for the FRR of FY 2017-18. Further, theft cases by (consumers as well as non-consumers) were neither pursued through criminal proceedings vigorously as the most of cases remained stagnant at FIR stage nor were recovery suits filed in respective Gas Utility Courts in compliance of KMI 22-24.

Audit was of the view that due to non-implementation of KMIs by the management, UFG losses could not be decreased and brought within allowable limit despite spending an amount of Rs 4,550 million for UFG control related activities

The matter was reported to the PAO on September 25, 2019. The management informed that the company had fully complied KMIs advised by OGRA except metering related KMI(s) which were partially executed due to non-provision of requisite budget by OGRA. In respect of KMI No. 22 to 24 the company was taking stringent steps to curtail the gas pilferage by the non-consumer through continuous vigilance activities.

The reply is not tenable because despite reduction in theft of gas, overall UFG losses were increased and spending huge funds of Rs 4,255 million during last two years and KMI 23-24 were not being complied with as the recovery suits were not being filed in Gas Utility Courts against gas theft cases by non-consumers.

Audit recommends to carry out UFG control and KMI implementation related activities in letter and spirit to bring the unabated UFG losses within allowable limit besides providing the breakdown of UFG components for quantification for the FY(s) 2017-18 and 2018-19 expeditiously.

[DP Nos. 525, 526& 663]

### *2.5.6.12 Loss due to non-laying of legal network despite SCP / CCI / OGRA's directives - Rs 6,520.587 million*

Ministry of Energy (Petroleum Division), Policy Wing conveyed vide letter No. NG(II)-15(27)/2018-Zamzama dated March 28, 2019, the decision of

CCI taken in meeting dated November 24, 2017 regarding provision of gas facility to the locality / villages falling within 5 Km radius of gas producing fields. CCI decided that “the expenditure involved in provision would be borne by the distribution companies. The cost over and above criteria will be borne by gas utility companies which will be recovered through tariff adjustment”.

Ministry further directed to recall the Supreme Court of Pakistan decision dated 27.12.2013 in C.P. No.46/2013, CMA No.278-Q/2013, HRC No.36052/ 2013 whereby the apex Court directed that the Ministry of Petroleum & Natural Resources shall ensure implementation of the Prime Minister’s directive of September 15, 2003 and provide gas to “all the surrounding localities / villages falling within the radius of 5 Km of all gas fields on priority basis”.

During audit of SNGPL for 2018-19 it was observed that management failed to implement the decision of Supreme Court of Pakistan and CCI regarding gasification of 96 localities within 5 Km radius of gas fields in Punjab / KP especially the villages near Karrapa / Manjowal in the district of Karak (Gurguri). Resultantly, locals were engaged in direct tapping / connection from SNGPL main transmission pipeline and causing loss of gas volume of 10,573 MMCF valuing Rs 3,740.938 million and 6,245 MMCF valuing Rs 2,779.649 million during the FYs 2017-18 and 2018-19 respectively. The project cost for this purpose had been chalked out at around Rs 8.5 billion but the legal network was still pending.

Audit is of the view that negligence of management resulted in non-implementation of decisions of PM, SCP and CCI, resultantly, huge volume of gas was being pilfered.

The matter was reported to the PAO on September 27, 2019.

In DAC meeting held on January 16, 2020 the management explained that first phase of the project had been approved by ECC at an estimated cost of Rs 1,944 million. Out of which Rs 690 million would be borne by the Government of KPK. The project had been approved and job numbers had been sanctioned and work started. DAC directed the management to ensure the implementation of the CCI decision in the light of OGRA’s decision dated January 14, 2020. No further progress was reported till finalization of the report.

Audit recommends to explain the reasons for not implementing the decisions of PM, SCP and CCI and expedite the provision of gas supply to 96 localities / villages falling within 5 Km radius of gas producing fields expeditiously.

[DP No. 500]

### *2.5.6.13 Loss on account of gas theft due to ineffective surveillance – Rs 286.115 million*

As per Clause D-3 of "Procedure for dealing with the theft of gas cases" issued by OGRA vide letter No. OGRA-9(2)/2005 dated August 16, 2005, "in case of strong evidences leading to confirmation of the act of theft, the company will disconnect the gas supply of the consumer / defaulter and will remove all devices which can facilitate the consumer / defaulter in unlawful restoration of gas supply". Further, according to Clause-E, theft charges from non-consumers shall be determined as per procedure, and legal notice will be served to the defaulter for depositing the gas theft charges to the company, as per provision of OGRA Ordinance and Rules/Regulations made there under.

During audit of SNGPL for the year 2018-19, it was observed that an amount of Rs 274.63 million was involved in 655 gas theft cases by consumers but the management failed to complete procedural formalities in theft cases such as disconnection, assessment of gas charges, issuance of demand, scrutiny from Sales Department, authorization from Law Department and filing of recovery suits by Billing Department within stipulated period. Further UFG teams detected 6 theft cases through undocumented / fake meters and unlawful network in Lahore, Gujranwala and Islamabad and meters / unlawful network and pipeline was removed. Resultantly, an amount of Rs 11.485 million was booked besides lodging FIRs but neither recovery suits were framed nor criminal proceedings were actively pursued, as no further progress on FIR cases was available in record.

Audit is of the view that due to weak internal controls and failure of the management in prevention of gas theft resulted in loss of Rs 286.115 million.

The matter was reported to the PAO in October and November, 2019.

In DAC meeting held on January 16, 2020, management explained that recovery suits against 345 consumers amounting to Rs 258.8 million had been initiated, an amount of Rs 11.5 million had been recovered and recovery suits against balance amount were being filed as per policy of the company.

DAC directed the management to get the recovered amount verified from Audit and provide the details of recovery suits of 345 cases. DAC further directed to pursue the recovery suits in the respective Gas Utility Courts and expedite the filing of recovery suits in remaining cases. No further progress was however, reported till finalization of the report.

Audit recommends to expedite the recovery by filing of suits in Gas Utility Courts and pursuing criminal proceedings besides strengthening the surveillance, vigilance to forestall the pilferage of gas and get the recovered amount verified from Audit.

[DP Nos. 545, 554 & 728]

### *2.5.6.14 Loss of gas on transmission line extended to a cement factory – Rs 61.081 million*

According to Agenda Item-F (5999) of 528th BoD meeting dated May 28, 2019, regarding reasons for increase in UFG, BoD highlighted that transmission losses had increased three times as compared to same period of last year. However, KP & FG claimed that law & order situation had improved. Board accorded approval for establishment of regional office Karak and accordingly the office had been established for better control in UFG losses.

During audit of SNGPL for the FY 2018-19 it was observed that transmission losses had increased by 4,176 MMCF upto March, 2019 which were three times more than that of transmission losses as in March, 2018. The company suffered loss due to supply of gas to a cement factory located in Karak. Contract for firm supply of 105 MMCF was executed with the cement factory whereas a loss of 250 MMCF had occurred on this line during the month of March, 2019 as this line was ruptured from many points.

Audit is of the view that due to poor UFG control company suffered extra transmission loss of 145 MMCF gas valuing Rs 61.081 million.

The matter was reported to the PAO on October 27, 2019. The management stated that cause of the increase in transmission losses was the insurgency developed among the locals due to non-availability of gas in different villages of Districts Karak, Kohat and Bannu. The reply is not tenable because no justification was given regarding 300% increase in UFG losses in March, 2019 as compared to March, 2018 because the law and order situation was too existed in March, 2018 whereas as per Federal as well as KP government law and order situation was improved. No further progress was reported till finalization of the report.

Audit recommends to probe into the matter relating to 300% increase in transmission losses in March 2019 compared with March, 2018 and take remedial measures.

[DP No. 556]

***2.5.6.15 Loss due to loose control over sales meter stations (SMS) - Rs 16,302.596 million***

According to UFG Manual, the gas in distribution system was measured at sales meter station (SMS) and then was transferred to town border stations (TBSs) and from where the gas was provided to end consumers (CMS). Reconciliation at each stage was required, to know the actual point of leakages / misuse / loss of gas. Further, as per Rule 9 of UFG Manual, compilation of monthly gas sales reconciliation reports SMS / region wise to ensure action, in case of identified grey areas was the responsibility of UFG control department. Areas with high percentage loss should be focused to have proper control over UFG losses.

During audit of SNGPL for the FY 2018-19, it was observed that the management failed to control UFG losses ranging from 7.7 % to 100 % in respect of 146 Sales Metering Stations installed in the Company's franchise area. The management did not focus on areas / SMSs prone to high UFG losses as advised in UFG study approved by OGRA. Moreover, in cities, SMSs were inter-looped with each other which made it impossible to identify the areas with high or low gas losses. Resultantly, company suffered a loss of 44,408 MMCF gas valuing Rs 16,302.596 million on account of UFG. Audit could not find

evidence that corrective measures were taken by the management or enhanced vigilance was employed for the areas / SMSs prone to high UFG as the same issue was also highlighted by Audit in preveous years.

Audit was of the view that weak managerial control and inter looping of SMS(s) in cities resulted in high UFG losses.

The matter was reported to the PAO on September 25, 2019 and November 29, 2019. The management stated in its reply that losses at pointed out SMSs have been reduced significantly and overall UFG losses in volumetric term had been reduced. In cities gas was being supplied through three to five SMS only which were also inter-looped with each other. Audit contended that the main reasons for unabated UFG losses were non focusing of SMS(s) prone to high UFG and non-removal of inter looping of SMS(s) in cities.

DAC in its meeting held on November 26, 2019 and December 24, 2019 directed the management to provide SMS-wise details of UFG losses showing reduction for verification. No further progress was reported till finalization of the report.

Audit recommends to implement the DAC directives and focus on areas / SMS(s) prone to high UFG losses besides removing the looping of the SMS(s) in cities for better control over UFG.

[DP Nos. 301, 314, 474 & para 6 of AIR F-26/2019]

**Receivables Management**

***2.5.6.16 Non-recovery of gas charges from active and disconnected consumers / defaulters – Rs 58,049.65 million***

According to Clause 13.1 of Billing Manual of SNGPL, it will be the responsibility of GM (Billing) to ensure collection of Company's gas bills in respect of all categories of consumers. Further, as per Clause 13.2 of Billing Manual, just after the expiry of due date, a disconnection notice be served advising to pay gas dues within a week, i.e. before last day of the month failing which their gas supply shall be disconnected immediately.

During audit of SNGPL for the FY 2018-19, it was observed that the management failed to recover outstanding gas charges of Rs 58,049.65 million from 7,293 active consumers and 6,953 disconnected consumers aggregating to 14,246 consumers. Further, the management did not retain sufficient security deposits covering the gas charges of anticipated consumption. Out of this, an amount of Rs 27,970.037 million on account of LPS was incorrectly booked on subjudice amounts. Moreover, the management failed to recover decreed amount of gas charges amounting to Rs 532.282 million in 1,224 cases even after courts orders in favour of the company. It is pertinent to mention here that the management did not have sufficient details of assets of those defaulters hence, process for the attachment of assets could not be initiated.

Audit was of the view that due to negligence of the management, the outstanding dues could not be recovered from the defaulters resulting in non-recovery of Rs 58,049.65 million.

The matter was reported to the PAO on December 14, 2018 and during September to December, 2019.

In DAC meeting held on January 16, 2020 management explained that out of total outstanding amount, an amount of Rs 2,500 million had been recovered and an amount of Rs 12,287.80 million was pending due to litigation on account of tariff and GIDC as well as circular debt. These cases were sub-judice and the position would be shared upon decisions of courts. Whereas an amount of Rs 27,970.037 million was booked on account of LPS on sub-judice amounts / GIDC which would be reversed in the accounts subsequently. Further, remaining amount of Rs 15,292.49 million was also outstanding.

DAC directed the management to get the record relating to recovered amount and position related to LPS verified from Audit and pursue the sub-judce cases vigorously besides expediting the recovery of balance amount and following up amount in circular debt. No further progress was reported till finalization of the report.

Audit recommends to intimate the reasons for non-recovery from the defaulters and ensure expeditious recovery and reversal of incorrectly booked LPS besides intimating the measures being taken in this regard.

[Annex-11]

### *2.5.6.17 Non-encashment of bank guarantees – Rs 510.346 million*

As per condition 1(i) of the contract for the supply of gas between SNGPL and the industrial consumer, "the consumer immediately at the time of the contract shall pay to the company the equivalent to 03 months estimated natural gas consumption during the year, inclusive of meter rent and all government taxes. Further, as per condition (v), of the contract, the company may encash the bank guarantee if less than fortnight remains for its validity and an adequate replacement is not furnished by the consumer to the satisfaction of the company.

During audit of SNGPL for the FY 2018-19, it was observed that in 103 cases, the management failed to encash bank guarantees worth Rs 510.346 million, submitted by the industrial consumers, within the validity period of each guarantee, resultantly, these bank guarantees expired. The management issued notices to the consumers for renewal of guarantees, after expiry of the guarantees in question.

Audit is of the view that the management was liable to encash the bank guarantees within last fortnight of the validity period of the bank guarantees. Thus negligence of the management resulted in non-encashment of bank guarantees amounting to Rs 510.346 million.

The matter was reported to the PAO in August, 2019.

In DAC meeting held on December 24, 2019, the management explained that amount of Rs 2.5 million had been recovered and verified by Audit, Rs 34.850 million was under recovery and for the remaining amount of Rs 472.945 million necessary actions were in progress. DAC directed the management to recover the remaining amount and get the recovery verified from Audit within a week. No further progress was reported till finalization of the report.

Audit recommends that either the bank guarantees be renewed or the amount be recovered from the industrial consumers and action be taken against the person(s) at fault for non-encashment of guarantees within validity period.

[DP No. 365]

**RLNG related issues**

***2.5.6.18 Excess determination of Transportation Charges due to inclusion of guaranteed rate of return on non-operational RLNG pipeline – Rs 12,950.149 million***

According to decision of ECC in case No ECC-/122/13/22012 dated October 03, 2012 conveyed by MPNR vide No. NG(II)-16(I)/14-Misc-LNG-Pt dated November 12, 2015 regarding approval of modalities for LNG / RLNG infrastructure projects any financing cost for LNG purchased will be allowed as admissible expenditure under the revenue requirements to the gas utilities. Further, according to ECC decision in case No. 124/15/2015 dated September 03, 2015 financial costs incurred in creation of RLNG infrastructure of national importance should be allowed as admissible expense in the revenue requirement of the utility companies.

During audit of SNGPL for the FY 2018-19, it was observed that management capitalized the fixed assets relating to LNG projects costing Rs 53,116 million (including mark-up of Rs 3,291.149 million on the loan) as per FRR 2017-18. However, RLNG pipelines were not operationalized as yet and swapping arrangement between SSGC and SNGPL still continued. On the other hand, SNGPL availed guaranteed rate of return of Rs 7,504 million and Rs 8,738 million (aggregating to Rs 16,242 million) for the FY 2017-18 and 2018-19 respectively on non-operational pipeline of LNG which was much greater than the amount of admissible mark-up paid on loan amount i.e. Rs 3,291.851 million. Hence, an amount of Rs 12,950.149 million (Rs 16,242 million – Rs 3,291.851 million) was availed in excess of SNGPL's legitimate right as "Transportation Charges". It is pertinent to mention that RLNG was being administered under the Petroleum Products (Petroleum Levy) Ordinance, 1961 (SRO No 408(I)/2015 dated May 07, 2015) under which no such guaranteed rate of return on assets (ROA) was allowed.

Audit is of the view that due to violation of ECC decision, the Company availed inadmissible guaranteed Return on Assets on non-operational pipeline instead of admissible expense on account of finance cost of LNG projects which resulted in extra burden on RLNG consumers.

The matter was reported to the PAO on September 26, 2019. The management replied that as per ECC decision assets relating to LNG project would be included in asset base and ROA would be allowed thereon. Company had been following up with OGRA for implementation of ECC decision and inclusion of finance cost in revenue requirement but OGRA did not allow the finance cost in revenue requirement.

Audit contended that as per IAS 16.7, the non-operational pipeline could not be categorized as assets because economic benefits of pipeline had not been fetched up-till-now. Further, ROA was not allowed on carrying out the business of petroleum products and RLNG was not covered under regulated regime. Additionally, the company availed the guaranteed rate of return for RLNG business without allocating any T&D cost to RLNG consumers rather this was charged to indigenous gas consumers incorrectly.

Audit recommends to reverse / adjust the amount of ROA of Rs 16,242 million availed by the company incorrectly, operationalize LNG pipeline for supply of RLNG expeditiously and exclude mark-up paid on loan for RLNG projects from the value of RLNG fixed assets as the same is allowable as operating expenditure.

[DP No. 516]

### *2.5.6.19 Excess determination of Transportation Charges for RLNG by including depreciation of non-operational RLNG pipeline – Rs 11,329 million*

According to IAS 16, the cost of an item of property, plant and equipment is recognized as an asset if, and only if; it is probable that future economic benefits associated with the item will flow to the entity; and the cost of the item can be measured reliably. Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life and the depreciation charge for each period is recognized in profit or loss.

During audit of SNGPL for the FY 2018-19, it was observed that management claimed "Cost of Supply" of RLNG by including depreciation on RLNG pipeline to the tune of Rs 2,550 million, Rs 4,480 million and

Rs 4,299 million in FRR 2017-18, ERR 2018-19 and ERR 2019-20 respectively despite the fact that RLNG pipeline was not operational for supply of RLNG. The economic benefits associated with the RLNG pipeline had not since yet flown to the company. Therefore, charging of depreciation amounting to Rs 11,329 million from RLNG consumers was unjustified because RLNG pipeline / other assets were not being used in transport / supply of RLNG.

Audit is of the view that due to charging of depreciation of such fixed assets which could not be operationalized as yet, extra burden of higher RLNG prices was being passed on to RLNG consumers.

The matter was reported to the PAO on September 26, 2019. The management replied that M/s SSGCL received RLNG from LNG Terminals at Port Qasim (Karachi) and subsequently delivered the same quantity of gas through swap arrangement to SNGPL's network at selected transfer points. The reply is not tenable because depreciation could not be charged when RLNG pipeline was not operational because as per IAS 16.55, depreciation begins when the asset is available for use.

Audit recommends that depreciation amounting to Rs 11,329 million charged on RLNG pipeline / other assets which were not being used in transport / supply of RLNG be reversed in "Transportation Charges" in next FRR. In addition to this, in the prevailing swapping arrangement, depreciation of indigenous gas fixed assets being used for supply of swapped gas, may be charged from RLNG consumers and corresponding amount of depreciation be deducted from depreciation of fixed assets being charged to indigenous gas consumers.

[DP No. 507]

### *2.5.6.20 Non-inclusion of LPS and other income of RLNG for calculation of cost of service - Rs 574 million*

According to Clause (ii) decision of ECC vide case No. EE-6/2/2016 dated 28.01.2018, OGRA is advised that subject projects will be included in the asset base of gas companies subject to condition that RLNG pricing will be ring fenced and all directly attributable costs will be charged / recovered from RLNG

consumers without affecting the consumers relying on domestically produced gas.

During audit of SNGPL for the FY 2018-19, it was observed that management calculated “Cost of Service / Transportation Charges” for the FY and 2018-19 by including ROA, GIC, depreciation, finance cost of RLNG loan, transportation charges payable to SSGC and shortfall of previous year. But no income earned from RLNG consumers i.e. LPS and interest income Rs 574 million was adjusted to reduce the cost of service in disregard to ECC decision.

Audit is of the view that due to non-inclusion of LPS income while calculating Cost of Service / Transportation Charges, RLNG prices were determined on higher side which were being recovered from RLNG consumers.

The matter was reported to the PAO on September 26, 2019 and in its reply, the management agreed with the view point that LPS accrued on receivables from RLNG consumers should be treated as an operating income but OGRA was not convinced and did not take into account LPS in the calculation of Transportation Charges.

The DAC in its meeting held on January 16, 2020 directed the management to take up the matter with OGRA for inclusion of LPS as operating income and operating expenses as the case may be. No further progress was reported till finalization of the report.

Audit recommends that matter be taken up with OGRA regarding inclusion of LPS income in the calculation of Cost of Service for the FY 2018-19 in next price determination for RLNG.

[DP No. 506]

***2.5.6.21 Non-recovery of cost of RLNG from SSGC - Rs 28,192.845 million***

According to Policy Guidelines issued by the Ministry of Energy (Petroleum Division) dated 25.05.2018, ECC approved the proposals of M/o Energy (PD) regarding RLNG handling by SSGC and SNGPL on volumetric basis in sales price of RLNG in the form of distribution loss due to swapping arrangements and consumption of RLNG by SSGC in its franchise

area. M/s SSGC and SNGPL were allowed to manage gas loads on their system through RLNG-System Gas swap mechanism for which necessary provision of volumetric adjustment and financial impact was to be made in the sale price of RLNG on a multi-year and on-going basis through setting up of a deferral account by OGRA. Further, a swapping arrangement was introduced to carry out RLNG business between SSGC and SNGPL under which SSGC would utilize the RLNG in its franchise area on indigenous gas tariff and deliver equal volume of indigenous gas to SNGPL for sale in its franchise area on RLNG price.

During audit of SNGPL for 2018-19 it was observed that aggravated demand supply gap of RLNG and reduced off-takes by SNGPL put extra burden on line pack, due to which SSGC had to divert RLNG valuing Rs 28,192 million to its franchise area at domestic consumer tariff under swapping arrangement.

Audit is of the view that due to unrealistic demand and supply assessment of RLNG by the Ministry of Energy (Power / Petroleum Division), volume of RLNG had to be sold by SSGC in its franchise area which resulted in accumulation of huge unresolved claims of SNGPL against SSGC and extra burden was passed on to RLNG consumers in SNGPL's franchise area in the shape of differential amount charged through RLNG sales prices.

The matter was reported to the PAO on September 25, 2019. The management in its reply stated that SNGPL was continuously following up the matter with OGRA. SNGPL had issued invoices for all the RLNG withheld by SSGC as on June 30, 2019. However, recovery of RLNG withheld by SSGC was still awaited. No further progress was reported till finalization of the report.

Audit recommends to take up the matter with M/o Energy (Petroleum Division) to ensure realistic demand and supply of RLNG and recover the cost of RLNG on this account from SSGC as per ECC's decision.

[DP No. 535]

### *2.5.6.22 Non-recovery of indigenous gas charges from RLNG consumers – Rs 14,134.873 million*

According to clause (vii and viii) of ECC decision vide Case-62/08/2015 dated April 23, 2015,the volume and prices of RLNG sold to

consumers may be ring fenced and considered separately for UFG benchmarking / disallowance purpose only. Further, in case of ring fencing, any make up volume due to BTU equivalence may be treated as “deemed delivery / sales” in the UFG computation as an operational constraint.

During audit of SNGPL for the FY 2018-19, it was observed that management shifted additional indigenous gas volume of 11,322 MMCF to RLNG consumers for sale on account of energy equivalence due to difference in BTU (calorific value) under swapping arrangement. Hence, indigenous gas valuing Rs 5,039.422 million was reduced for sales to indigenous gas consumers during the FY 2018-19. Similarly, 7,286 MMCF of indigenous gas valuing Rs 2,577.932 million was also shifted to RLNG consumers during the FY 2017-18. As per ECC decision, this shifting of indigenous gas should have been treated as deemed sales and sales prices were recovered from RLNG consumers. But the benefit of this was not transferred to indigenous gas consumers at applicable prescribed price amounting to Rs 14,134.873 million under ring fencing mechanism.

Audit is of the view that due to shifting of indigenous gas on account of energy equivalence for RLNG sales, the sales revenue of indigenous gas in tariff was decreased and caused extra burden on indigenous gas consumers.

The matter was reported to the PAO on September 26, 2019. The management stated that RLNG was high in GCV and after its injection into their system it was comingled with the system gas having lower GCV, therefore the GCV of the whole system gets improved. The reply is not tenable because no comingling of RLNG with indigenous gas was done in the prevailing swapping arrangement upto June 30, 2019 and as per ECC decision the system gas sold to RLNG consumers on this account should have been treated as deemed sales without affecting indigenous gas consumers to ensure ring fencing. Therefore, the indigenous gas on prescribed price should have been recovered from the RLNG consumers and its corresponding benefit be given to indigenous gas consumers. No further progress was reported till finalization of the report.

Audit recommends to take up the matter with OGRA for recovery of indigenous gas volume at prescribed price and revenue requirement of the

indigenous gas be reduced accordingly by including the same in other operating income in next FRR.

[DP No. 534]

### *2.5.6.23 Non-finalization of GSPA with PTPL and PLL*

According to condition 39.1 of license read with provisions of the Sale of Goods Act, 1930 and the Contract Act 1872, the licensee shall not sell gas to consumers without a contract. All agreements or contracts should be negotiated, entered into or amended on an arms' length basis and in accordance with the provisions of the Ordinance and the Rules. Moreover, Agenda Item-I (5993) para (vii) of 526$^{th}$BoD Meeting dated April 27, 2019 regarding signing of GSPA with Punjab Thermal Power (PTPL) for Trimu Power Project along with the back to back agreements (GSPA) with PLL, Reimbursement agreement with CPPA and Addendum to the existing Gas Transport Agreement with SSGC was deferred for consideration to a subsequent meeting of BoD due to paucity of time.

During audit of SNGPL for the FY 2018-19, it was observed that the management had been purchasing RLNG from PLL and selling RLNG to a GPP i.e. Punjab Thermal Power (PTPL) without finalizing the GSPA with PLL and PTPL for Trimu Power Project. Consequently, back to back agreements with Central Power Purchasing Agency-Guarantee (CPPA-G) and Gas Transportation Agreement (GTA) with SSGC could not be finalized.

Audit is of the view that non-finalization of GSPA with PLL and PTPL for sale / purchase of RLNG puts the whole RLNG business at risk being not backed by firm commitments.

The matter was reported to the PAO on October 27, 2019.The management replied that ECC in its meeting held on October 02, 2019 had decided that M/s SNGPL and PLL shall execute a separate GSPA for supply of 185 MMCFD on take or pay basis and a separate GSPA for supply of RLNG volumes over and above 185 MMCFD backed by submission of SBLC. Further the CPPA-G advised elimination of 66% minimum RLNG off-take obligation for PTPL and they would only be accommodated against any unutilized RLNG by the GPPs. No further progress was reported till finalization of the report.

Audit recommends to take up the matter with the PAO for early resolution of the issue so that GSPA with PTPL / PLL along with back to back agreements are finalized.

[DP No. 664]

### *2.5.6.24 Unjustified booking of receivables against RLNG consumers on disputed amount - Rs 60,139.790 million*

According to International Accounting Standard (IAS) 18, recognition of an item as revenue means that probable future economic benefit associated with the item will flow to the entity and the its amount can be measured with reliability.

During audit of SNGPL for the FY 2018-19, it was observed that the management booked as revenue Rs 60,139.790 million for the FY 2018-19 by issuing take or pay invoices to GPPs due to failure in consumption of RLNG as per Annual Delivery Plan (ADP) equivalent to 66 % of their Maximum Gas Allocations. The GPPs disputed the amount charged under TOP on the plea that SNGPL did not raise the invoices in accordance with the provisions of the applicable GSA. The external auditor had also given a qualified opinion on the Financial Statements of the company for the FY 2017-18 and considered the recognition of such disputed amounts as receivables as departure from accounting and reporting standards (IAS 18) as applicable in Pakistan. However, the management continued the practice of booking the disputed amounts and huge receivables on this account were being accumulated on regular basis. Furthermore, SNGPL had also booked Rs 1,093.148 million against Engro Energy Ltd and Davis Energan Ltd on account of TOP although neither any agreement with TOP clause was finalized not they were RLNG consumers.

Audit is of the view that due to departure from accounting and reporting standards and continuous raising of disputed invoices resulted in accumulation of huge receivables.

The matter was reported to the PAO on September 27,2019.The management replied that the expert determination in three arbitrations was announced on September 14, 2019 upholding SNGPL’s stance. GPPs disagreed

and filed requests for arbitration in the LCIA. Moreover, SNGPL had system gas supply contract with Engro Energy Private Limited with take or pay clause. In May 2017, an interim agreement was executed with Davis Energen Private Limited for supply of RLNG on "as and when available basis".

The reply is not tenable because due to departure from accounting & reporting standards and continuous raising of disputed invoices, booking of receivables was not correct.

Audit recommends to revisit the policy of booking of disputed amounts as receivables and explain the reasons of booking against EEPL and Davis Energen on Take or Pay besides pursuing arbitration in the LCIA vigorously.

[DP No. 536]

### *2.5.6.25 Unlawful provision of new connections to commercial / industrial RLNG consumers – Rs 468 million*

According to para 5.13 of Review of ERR for the FY 2018-19, OGRA has allowed Rs 468 million for 300 industrial and 3,000 commercial connections being RLNG based connections under ring fenced mechanism.

During audit of SNGPL for the FY 2018-19, it was observed that the management was allowed Rs 468 million to install RLNG based 300 industrial and 3,000 commercial connections by OGRA. Apart from these 3,300 industrial / commercial connections, the company also installed large number of RLNG based connections to private housing societies for which all meters, service lines and other material and human resources were utilized from the revenue requirement of indigenous gas instead of keeping the aforesaid ring fenced capital / revenue expenditure separate to charge the same to the RLNG consumers. Cost of meters and allied material (stores / other consumables), contract payments and human resources employed by the company in survey, installation of meter and used for operation and maintenance were charged to normal business. The company was required to maintain separate books of accounts for regulated activities and RLNG consumers on ring fenced basis.

Audit is of the view that due to non-charging of cost of installation, maintenance and all allied cost to RLNG consumers undue burden was being passed on to indigenous gas consumers in violation of directives of GoP.

The matter was reported to PAO on October 27, 2019. The management replied that OGRA approved the budgets with specific categorization, under ring fenced mechanism and indigenous (others). The reply of the management is not tenable because record relating to RLNG consumers on ring fenced basis was not produced to Audit to verify the fact that all relevant costs were charged to RLNG consumers.

Audit recommends to charge actual cost of installation of new connections in private housing societies and all operation and maintenance cost from RLNG consumers under ring fenced mechanism without affecting consumers of indigenous gas.

[DP No. 540]

***2.5.6.26 Divergence of RLNG to domestic sector in winter season without any policy guideline and legal framework - Rs 26,441 million***

As per para 6.2.6 & 6.2.7 of ERR for the FY 2019-20, OGRA directed SNGPL to seek the policy of the Federal Government for supply of gas to the consumers on sustainable basis due to increase in gas network against depleting indigenous sources.

During audit of SNGPL for the FY 2018-19, it was observed that the management failed to seek policy guidelines on diversion of RLNG or vice versa to domestic consumers in order to meet the demand of its consumers (domestic in winter and other consumers in summer season) and legal framework for recovery of differential amount was also yet to be devised under the prevalent regulated regime. The Company sold RLNG through diversion to domestic consumers having differential amount of Rs 26,441 million during the FY 2018-19. The company was financing the sale to RLNG consumers under this account by obtaining running finance of Rs 20 billion from commercial banks.

Audit is of the view that diversion of RLNG to domestic consumers in the absence of any policy guidelines and legal framework for recovery of differential amount was affecting cash flows of the company.

The matter was reported to the PAO on October 27, 2019. The Management stated that the RLNG was diverted to domestic sector during winter 2018-19 pursuant to the ECC's decision. OGRA in the ERR 2019-20 had not allowed recovery of the cost of RLNG, diverted domestic sector through indigenous gas or RLNG pricing. Moreover, the SNGPL diverted 30 BCF to domestic sector in winter 2018 valuing Rs 34,411 million and recovered gas volumes through RLNG-System gas swap mechanism by selling System gas as RLNG during summer months. However, after adjustment of recovered volumes, net financial impact of RLNG sold to domestic sector till July 2019 is Rs 19,362 million. The Ministry of Energy (Petroleum Division) has also been requested for provision of direct subsidy or issue policy guidelines to OGRA for realization revenue shortfall in revenue requirements as per ECC's earlier decisions.

The DAC in its meeting held on January 16, 2020 directed the management to pursue the matter with Petroleum Division for taking up the issue with ECC for seeking necessary policy guidelines and legal framework for recovery. No further progress was reported till finalization of the report.

Audit recommends that the management should take up the matter with the Ministry for seeking policy guidelines for sustainable supply of gas (indigenous or RLNG or blend of both) and legal framework for recovery of differential amount.

[DP No. 519]

### *2.5.6.27 Excess charging of sales tax from RLNG consumers – Rs 6,606.75 million*

According to tripartite agreement between SNGPL, SSGC and PSO, "Gas Companies Agreement" means the arrangements between SSGC and SNGPL, covering their inter-se-arrangements relating to the LNG supplied by PSO and transportation of RLNG and/or its Swap with natural gas. Further, as per serial No.51 of the Eighth Schedule of Sales Tax Act, 1990 the import and supply of RLNG was chargeable to concessionary rate of sales tax @ 12% w.e.f. July 01,2018. Moreover, the wording "supply thereof" was amended as "If supplied to gas transmission and distribution companies" w.e.f. October 8, 2018 through Finance Supplementary (Amendment) Act, 2018.

During audit of SNGPL for the FY 2018-19, it was observed that SNGPL imported RLNG valuing Rs 132,135 million from July to September 2018 through PSO with a sales tax @ 12%. This RLNG was swapped with natural gas under the swapping arrangements with SSGC and natural gas was then supplied to the consumers. SNGPL however, charged 17% sales tax on this gas from its consumers even though it paid sales tax @ 12% on import of gas. This resulted in charging of excess sales tax of 5% from the consumers from July to Sep 2018, to the tune of Rs 6,606.75 million (Rs 132,135 million*5%).

Audit is of the view that negligence of SNGPL management resulted in extra charging of sales tax to the consumers.

The matter was reported to the PAO in August 2019. The management stated that the matter was taken up to ECC level through Ministry of Energy. ECC had reduced the sales tax rate from 17% to 12 % on LNG and the same was inserted in eight schedule Sales Tax Act 1990 w.e.f. October 08, 2018. The reply is not tenable because due to negligence on the part of management, extra sales tax was charged to the end consumers. No further progress was reported till finalization of the report.

Audit recommends to justify charging of excess sales tax from consumers besides making adjustments in next revenue requirement.

[DP No.790 ]

**Procurement related irregularities**

***2.5.6.28 Conflict of interest in procurement of legal services - Rs 123.9 million***

According to 5(b)(i) of the Corporate Governance Rules 2013, the principle of objectivity, integrity and honesty requires that the directors and executives of a Public Sector Company do not allow a conflict of interest to undermine their objectivity in any of their activities, both professional and private and that they do not use their position in the Public Sector Company to further their private gains in a social or business relationship outside the Public Sector Company. Further, according to 12 of PPRA Rules 2004, all procurement opportunities over two million rupees should be advertised on the Authority's

website as well as in other print media or newspapers having wide circulation and company's website as well.

During audit of SNGPL for the FY 2018-19, it was observed that management procured legal services from M/s Minto and Mirza worth Rs. 77.4 million relating to cases in Supreme Court / High Courts and Rs 46.5 million for representing SNGPL in public hearings of OGRA for Petition for Revenue Requirement since 2012 without any advertisement. Audit noted that Mirza Mahmood Ahmed, a Director in SNGPL BoD is a partner in the law firm providing these legal services which constitutes conflict of interest. Further the procurement was in violation of PPRA rules, 2004. The arrangement has also been objected by the BoD's  Audit Committee.

Audit is of the view that continued procurement of legal / advisory services from M/s Minto & Mirza since 2012 was in violation of applicable rules.

The matter was reported to the PAO on October 10, 2019.The management replied that BOD in its meetings approved appointment of M/s Minto & Mirza. The reply is not tenable because approvals regarding engagement of the aforesaid lawyer have been provided for only in 16 cases upto November, 2015 after which no approval of BoD for 20 cases relating to apex Courts and 31 cases relating to OGRA upto 2018-19 was provided. No further progress was reported till finalization of the report.

Audit recommends to conduct an inquiry into irregular procurement of legal services in violation of Corporate Governance Rules, 2013 and PPRA rules 2004.

[DP No. 522]

### *2.5.6.29 Irregular procurement of goods through prequalification and non-renewal of pre- qualified suppliers for services - Rs 7,024.21 million*

According to Query ID 2032 dated 26.12.2016, pre-qualification of suppliers and contractors carried out under Rules 15-18 of Public Procurement

Rules, 2004, procuring agency is required to specify in the bidding documents whether the prequalification is carried out for a specific job for once time or a period for completion of similar jobs. However, such period should not be more than one to two years to provide level playing field to all competitors. As per rules 15-18 of PPRA, prequalification can be carried out only for services, civil works, turnkey projects and in case of procurement of expensive and technically complex equipment to ensure that only technically and financially capable firms having adequate managerial capable firms having adequate managerial capability are invited to submit bids.

During audit of SNGPL for the FY 2018-19, it was observed that the management made procurements of goods and services through pre-qualified suppliers / contractors without carrying out renewal of pre-qualification of suppliers / contractors despite lapse of more than 3 years. Further, under PPRA rules prequalification of services, civil works, turnkey projects and expensive / technically complex equipment was allowed whereas the Company had been making procurements of line pipe, plastic pipe, furniture and fixture, valves & fitting and computer & hardware valuing Rs 7,024.21 million through pre-qualified suppliers for which no exemption from PPRA was made available to Audit.

Audit is of the view that lack of effective supervision led to irregular procurements.

The matter was reported to the PAO on December 10, 2019. The Management replied that prequalification at SNGPL is an open, transparent and continuous process and local manufacturers are prequalified for procurement of specialized items. The reply of the management is not tenable because prequalification can be carried out only for services, civil works, turnkey projects and in case of procurement of expensive and technically complex equipment only. Additionally, continuation of pre-qualification arrangements for more than three years with same supplier was irregular. No further progress was reported till finalization of the report.

Audit recommends to justify procurement of Rs 7,024.71 million of goods through prequalification and procurement of services without renewal of pre-qualification arrangements.

[DP No. 868 ]

***2.5.6.30 Non recovery of liquidated damages - Rs 22.85 million***

As per general terms of the contract, if the materials, as given in the order have not been dispatched/delivered on time and as per stipulations in the contract, SNGPL shall be entitled to recover 1% or 0.5% as the case may be of the total value of the delayed part of material for each week of delay, by way of Late Delivery charges and not by way of penalty subject to a maximum of 10% of the total value of the delayed part of the material.

During audit of SNGPL for the FY 2018-19, it was observed that in 15 cases, neither the suppliers supplied the requisite material within schedule time nor did management impose / recover the LD charges. On the other hand, payments were being made on regular basis on receipt of material despite non-observance of delivery schedule by the sellers with delay ranging from 01 to 24 months. This resulted in non-imposition / recovery of late delivery charges of Rs 22.85 million.

Audit is of the view that due to weak internal controls, led to non-imposition of LD charges.

The matter was reported to the PAO on December 10, 2019. The management informed that in 15 cases recovery of LD was under process. No further progress was reported till finalization of the report.

Audit recommends to justify non-imposition of LD charges besides recovering the same at the earliest from payments to be made to suppliers.

[DP No. 863]

### 2.5.6.31 *Blockage of funds due to unnecessary procurement – Rs 1,135.176 million*

According to Clause 2.1 of Store Manual of SNGPL all technical Heads of Departments would determine minimum and maximum stock levels of those items whose consumption is consistent and on regular basis, considering availability of space at various stores, so that sufficient material may be stored accordingly. Oracle ERP based data shall be used to know inventory levels.

During audit of SNGPL for the FY 2018-19, it was observed that the huge quantities of store items were lying unconsumed in the store at the start of financial year i.e. July, 2018 and at the end of the financial year i.e. June, 2019. This showed that management had procured excess material like PE pipe, line pipe (MS), corrosion tape, underground detection tape etc. under Capital Budget for the FY 2018-19. This resulted in un-warranted procurements of bulk quantities as a result of unnecessary indents raised by the departments without any actual requirement and blocking funds of Rs 1,135.176 million. Details of some illustrative cases is given below:

(Rs in million)

| Sr. No. | Description | FY | Purchase during the year | Opening Balance | Closing Balance | Rate | Total |
|---|---|---|---|---|---|---|---|
| 1 | Line pipe, G.I, 3/4 Dia | 2018-19 | 600,000 | 449,604 | 595,527 | 181.47 | 108.070 |
| 2 | Line pipe, G.I, 3/4 Dia | 2017-18 | 731,282 | 346786 | 449,604 | 181.47 | 81.589 |
| 3 | PE line pipe, 2 Dia, | 2018-19 | 1,495,166 | 172,226 | 533,959 | 211.96 | 113.177 |
| 4 | PE Line Pipe, 4 Dia, | 2018-19 | 1,166,412 | 116,513 | 478,815 | 41.52 | 355.051 |
| 5 | PE Pipe, 3/4, | 2018-19 | 1,237,100 | 752,511 | 955,718 | 43.53 | 41.602 |
| 6 | PE Pipe, ¾ Dia | 2017-18 | 1,958,100 | 134616 | 752,511 | 43.53 | 32.757 |
| 7 | PE Line Pipe 1-1/4 Dia, | 2018-19 | 1,895,019 | 548,580 | 832,650 | 113.98 | 94.905 |

Audit is of the view due to weak internal controls and poor inventory management, minimum / maximum / re-ordering stock levels were not fixed which resulted in unwarranted procurement of stores items worth Rs 1,135.176 million.

The matter was reported to the PAO on December 10, 2019. The Management reported that the HODs have determined minimum & maximum stock levels for those items whose consumption is consistent and on regular basis and the same have been incorporated in the inventory module of ERP system for view of all the concerned. The reply of the management is not tenable because the stock position at the end of FY reflects that unnecessary procurements were made in excess of actual requirements. No further progress was reported till finalization of the report.

Audit recommends to explain the reasons for unwarranted procurements besides ensuring better inventory management practices.

[DP No. 865 ]

### *2.5.6.32 Unjustified capitalization of training cost– Rs 16.362 million*

According to terms and conditions of inspection order No. 2822/19 with M/s Velosi Integrity and Safety Pakistan (Pvt) Ltd, inspections are to be carried out at the suppliers' premises to ensure that the goods strictly conform to the specifications as per Purchase Order, material found defective or inferior in quality, and to witness all the tests and stage inspections conducted during the process of manufacturing at the manufacturing site.

During audit of SNGPL for the FY 2018-19, it was observed that the management included US $ 62,000 (Rs 16.362 million) on account of foreign trainings / foreign visits of its employees to monitor the manufacturing process in purchase orders although the pre-shipment inspection order was already awarded to M/s Velosi Integrity & Safety Pakistan (Pvt) Ltd. Further, the management capitalized the training cost by making part of purchase orders instead of incurring through revenue budget if essentially required. This resulted in unjustified capitalization of training cost of Rs 16.362 million by making it part of Stores and Spares cost to be included in capital expenditure for the FY 2018-19.

Audit is of the view that due to incurrence of double expenditure on account of foreign training / visit cost and pre-shipment inspection cost for the same purpose simultaneously, the cost of procurements was excess claimed under capital expenditure for the purpose of guaranteed rate of return.

The matter was reported to the PAO on December 10, 2019. The Management stated that SNGPL specifications for equipment and material include a clause w.r.t. training and as such, no double expenditures has been paid in this regard. The reply is not tenable because incurrence of double expenditure on account of foreign training / visit cost and pre-shipment inspection cost for the same purpose was unjustified and the cost of procurements was excess claimed under capital expenditure for the purpose of guaranteed rate of return. No further progress was reported till finalization of the report.

Audit recommends to explain reasons for incurring double expenditure for the same purpose and cost of procurement related to foreign training / visits be excluded from the cost of fixed assets besides stopping the aforesaid practice.

[DP No. 866 ]

**Project Management**

***2.5.6.33 Non-initiation of land acquisition process for LNG projects – Rs 3,632.872 million***

According to Para 3.1 of Project Manual of SNGPL, the land section was responsible for initiating land acquisition process including issuance of advances to Land Acquisition Collector and their subsequent adjustment for construction of pipelines and mutation of acquired land in favour of company as per procedure given in project manual and Land Acquisition Act, 1894.

During audit of SNGPL for the FY 2018-19, it was observed that the management did not initiate the land acquisition process for LNG pipeline project despite start of work on the project in 2015. Prices of land were revised upward twice by Land Revenue Authorities since 2015. Due to delay in initiating the land acquisition process, cost of land had now escalated resulting in extra cost. Similarly, in other 444 cases, process for land acquisition was not initiated for ROW for transmission lines of 408.29 KMs 6" dia to 16" dia in Faisalabad. Hence, land acquisition costing Rs 3,309.874 million was pending for initiation of the process on which pipeline had been laid.

It is pertinent to mention that land department also failed to make the adjustment of advances of Rs 322.998 million paid for land acquisition and

similarly, the department got mutated 89 acre of land already acquired out of total 4,945 acre in favour of the company upto June 30, 2019.

Audit is of the view that slackness on the part of management would result in extra cost to the company due to escalation in price of land since 2015 which would ultimately be borne by the consumers.

The matter was reported to the PAO on September 27, 2019. The management explained that the lands department initiated the process of land acquisition after receiving of design drawings and land acquisition was under process. Further, LACs for the province of Sindh was appointed on August, 19, 2019 due to which process of adjustment of advances and mutation remained slow. The management did not provide any documentary evidences in support of its stance. Further, the management provided the details of land to be acquired for LNG project along with its estimated cost in August, 2019 for which process was to be started. No further progress was reported till finalization of the report.

Audit recommends to explain reasons for delay in initiating the land acquisition process and expedite the same besides fixing responsibility for delay in land acquisition process and any extra cost borne by the company.

[DP Nos. 498, 501 &509]

### *2.5.6.34 Non-completion of development works within stipulated time - Rs 18,639.239 million*

According to Rule 5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage. The principle shall be adhered to, especially with respect to handling of public funds, assets, resources and confidential information by directors, executives and employees and claiming of expenses. Further, according to work orders issued to contractors, jobs were required to be completed within three months of issuance of pipe and jointing materials.

During audit of SNGPL for the FY 2018-19, it was observed that 1,302 development jobs amounting to Rs 18,639.239 million were started from the years 2016-17 to 2018-19 but could not be completed in most of the cases, the work orders were issued for ditching & backfilling, laying of pipeline and construction of TBS to the contractors and material was also issued to them. Moreover, the management did not take any penal action against the contractors found responsible for delay. As a result jobs valuing Rs 18,639.239 million were lying incomplete.

Audit is of the view that due to weak monitoring and project management, work orders could not be executed by the contractors and respective jobs remained incomplete. Moreover, due to defective tender documents and absence of penal clauses, the management could not penalize the contractors.

The matter was reported to the PAO on September 25,2019. The Management stated that delay in completion of work involved a number of factors like non-receipt of NOC's from outer agencies, non-availability of pipe and its allied material, non-availability of TBS job numbers for commissioning of network and political rivalry / disputes in some localities. Due to above factors and non-availability of ample resources (human resources and material) and issuance of job numbers in the last quarter of respective financial year therefore, the jobs were not completed in the respective financial year. The reply was not tenable as status of each job with actual reason for non-completion was not given. Moreover pipe and allied material was available in huge quantity as inventory record is evident. No further progress was reported till finalization of the report.

Audit recommends to justify the non-completion of jobs within stipulated time and ensure expeditious completion of jobs besides taking action against the contractors who failed to complete the jobs.

[DP Nos. 325, 475,537& 861]

### *2.5.6.35 Non-approval of jobs despite receipt of funds from government - Rs 5,910.46 million*

According to office order issued vide No. 1800 dated June 21, 2019, the BoD accorded administrative approval for the Capital & Revenue Budgets for the FY 2018-19. Further, as per Clause 13.5.2 of Accounts Manual of SNGPL, section heads shall raise request for job numbers for obtaining management approval for incurring capital expenditure on construction works (pipeline).

During audit of SNGPL for FY 2018-19, it was observed that the management sanctioned gas schemes and assigned the same to the regional offices for execution. Later on regional management submitted 226 job requests to the head office for approval. However, these jobs were not approved which resulted in non-initiation of work of Rs 5,910.46 million.

Audit is of the view that due to weak project management and negligence, approval of jobs were not accorded despite receipt of funds from government.

The matter was reported to the PAO on September 25,2019 and December 05, 2019. The management reported that in number of cases jobs numbers had issued while in other cases job numbers have not yet been issued because of non-availability of sufficient funds in approved GOP schemes and Company budget against respective head. Audit contended that the requirement of additional documents from region / applicant against 100% cost recovery cases was not justified. The management is required to provide the copies of the job approvals in cases where job numbers had issued and all codal formalities including availability of funds for company share should have been ensured prior to entrusting the jobs to regions. No further progress was reported till finalization of the report.

Audit recommends to take necessary action for approval of jobs and fix responsibility on the persons at fault.

[DP Nos. 313 & 549]

### *2.5.6.36 Over-estimation of projects to obtain excessive government funds - Rs 2,072.983 million*

As per Ministry of Petroleum & Natural Resources, Directorate General Gas No.NG(I)-16(91)/2005-Imp dated June 2, 2005, the criteria was approved by Cabinet Committee on Energy CCE in 1992, which was subsequently revised by the ECC of the Cabinet vide decision dated July 15, 2008 for supply of gas to new areas / towns. The portion of funds equal to the requirement over the criteria specified for undertaking the schemes shall be provided by Federal Government whereas cost within criteria shall be borne by Company from its own resources.

During audit of SNGPL for the FY 2018-19, it was observed that the management prepared the cost estimates of gas schemes on the basis of survey conducted and unit construction cost of MS pipe where PE pipes were actually laid. Hence, government funds were released on the basis of estimated cost of gas schemes. The management completed 187 jobs by incurring Rs 1,405.611 million against estimated cost of Rs 3,478.601 million. Thus there was huge variation between the estimated cost and the actual cost incurred on these jobs which were completed within 6% to 61% of the budgeted costs. This showed that jobs were over-estimated to the tune of Rs 2,072.986 million which not only resulted in obtaining excessive funds from government but also blockage of company's allocated funds which cannot be assigned to other jobs / schemes.

Audit was of the view that due to over-estimation of cost of jobs, funds of Rs 2,072.986 million were blocked pertaining to both GoP as well as company which could be used for other purposes i.e. gas schemes, rehabilitation jobs, replacement of old network and rectification of leakages etc.

The matter was reported to the PAO on December 05, 2019. The management stated that the schemes were estimated on standard cost basis while actual cost occurred was based on actual material used and physical laying conditions. Any saving in standalone job could not be declared as final saving until the completion of the project. The reply is not tenable because the job costing standards were not finalized keeping in view the ground realities causing excessive saving in each job. Further the management was required to provide the details of schemes completed and pending upto June 30, 2019 along with

estimated vs actual expenses. No further progress was reported till finalization of the report.

Audit recommends to investigate the reasons for preparation of inflated estimates, fix responsibility and surrender the savings to the government.

[DP Nos. 662 & 726]

***2.5.6.37 Excess capitalization of jobs by over-booking of contract payment - Rs 330.70 million***

According to IAS 16, the cost of an item of property, plant and equipment is recognized as an asset if, and only if; it is probable that future economic benefits associated with the item will flow to the entity; and the cost of the item can be measured reliably. Further, according to section 13.4.4.2 of accounts manual read with clause 5 of annual budget instructions, job holder is responsible for completion of job completion report in all respects and finance department of SNGPL is responsible for allocation of overheads and necessary reconciliation of material and budget versus actual cost.

During audit of SNGPL for the FYs 2017-18 and 2018-19, it was observed that in regional offices at Abbottabad, Multan and Faisalabad, the following irregularities were observed in booking and capitalization of expenses incurred for different jobs:

(Rs in million)

| Sr. No. | No of cases | Amount booked | Description of irregularity |
|---|---|---|---|
| 1 | 15 | 41.879 | Amount was booked on accrual basis on June, 30 2018 but no adjustments were made subsequently. |
| 2 | 26 | 14.507 | Expenses were booked after commissioning / completion of jobs despite lapse of one to ten years. |
| 3 | 21 | 241.87 | Incomplete and non-operational pipelines were capitalized. |
| 4 | 12 | 32.439 | Overhead cost allocation and contractor payments were booked prior to issuance of pipe and allied material. |
| **Total** | **74** | **330.70** | |

Audit was of the view that weak project management / accounting resulted in excess booking and capitalization to the tune of Rs 330.70 million which would result in excess guaranteed rate of return on assets.

The matter was reported to the PAO on September 25, 2019.The management replied that the expenditure were recorded under job costing system after preparation of completion reports and accruals were adjusted subsequently. Upon commissioning the pipeline became operational and the same was capitalized. The reply is not tenable because no specific reply of the cases pointed out was given, as the expenses on account of hiring of motor vehicles, motor vehicles cost allocation, casual labour, pipe and pipe fitting were booked after completion of jobs despite lapse of period upto 10 years.

The DAC dated December 24, 2019 directed the management to submit reasons for booking on case to case basis with documentary evidence by linking the expenses to relevant jobs. DAC also directed to submit reasons for not preparation of jobs completion report within 60 days on case to case basis. No further progress was reported till finalization of the report.

Audit recommends to justify the excess capitalization besides taking corrective measures for reversal of over booking / capitalization.

[DP Nos. 311, 312, 328, 479, 484 & 727]

***2.5.6.38 Inadmissible booking of expenses to SDGs jobs - Rs 122.319 million***

According to Para 15 of guideline for executing SDGs jobs, expenditure shall not be incurred on purchase of equipment, vehicles, fixture, salaries, printing of diaries/ calendars / banners, holding of official meeting and dinners/parties. Similarly, no, administrative overhead shall be charged by any agency of execution of the SDGs scheme. The company shall bear all the administrative overheads instead charging to SDG schemes.

During audit of SNGPL, Lahore for FY 2018-19, it was observed that management had charged the inadmissible expense on account of employee salaries, casual employee salaries, casual labour salaries, travelling allowance, vehicles hiring, allocation of vehicles, construction plant & equipment, tender

advertisement and overhead allocation etc. As per guidelines, these expenses were inadmissible for SDGs jobs. This resulted in inadmissible charging of expenses amounting to Rs 122.319 million.

Audit is of the view that weak financial management resulted in wrong charging of inadmissible expenses to SDG jobs.

The matter was reported to the PAO on November 29, 2019.The management replied that all the expenses booked for completion of job remained within the approved SDG budget which were only utilized for respective SDG Schemes. The reply is not tenable as the management is not tenable as the management made the wrong booking and the same is required to be reversed and surrendered to government besides taking action against the persons at fault for wrong booking. No further progress was reported till finalization of the report.

Audit recommends that the matter be justified and wrong booking be reversed and savings be surrendered to Government.

[DP No. 483]

***2.5.6.39 Non refund of saving to consumers in cost sharing jobs - Rs 42.491 million***

According Para 9.2.2 of Accounting Manual of SNGPL, the duties and responsibilities of Area Accountant include arranging recovery/ refund from/to consumers after completion of cost sharing jobs.

During audit of SNGPL, Lahore for FY 2018-19, it was observed that in 9 cases of cost sharing jobs, the management failed to refund the saving to consumers. The amount of Rs 248.969 million being estimated cost of jobs was received from consumers. These jobs were completed with actual expenditure of Rs 206.478 million with saving of Rs 42.491 million which was not refunded to the consumers. Further, the total amount received from the consumers was capitalized without deduction of saving. This resulted in non-refund of saving and excess capitalization amounting to Rs 42.491 million.

Audit is of the view that due to weak financial control, savings were

neither refunded to consumers nor included in other operating income for revenue requirement purpose.

The matter was reported to the PAO in September, 2019.The management stated that the Company refunds the amount when the line pipe laid was less than the sanctioned line pipe/amount or not laid at all after completing the relevant codal formalities. The reply was not tenable because no such documents provided for refund of savings. Management also required to take action for refund of savings and for reversal of excess amount capitalized. No further progress was reported till finalization of the report.

Audit recommends to refund the savings of Rs 42.491 million to the consumers and take remedial action for reversal of excess amount capitalized.

[DP No. 481 ]

### *2.5.6.40 Non-surrendering of savings in 56 completed jobs (SDGs) - Rs 276 million*

According to Para 13 &14 of Cabinet Division's Development Wing Notification vide No.F.7(2)(Dev)/2016 dated October 10, 2016, savings against the schemes completed shall be surrendered immediately on completion of the scheme without waiting closing of the financial year.

During audit of SNGPL for FY 2018-19, it was observed that the management completed 56 jobs by incurring less than estimated expenditure ranging from 31% to 59% of total projected cost. But savings of Rs 2,005.092 million were not surrendered to Federal Government / Punjab Government. This resulted in non-surrender of savings in violation of Cabinet Division's notification.

Audit is of the view that weak financial controls resulted in retaining of savings despite Government's directives.

The matter was reported to the PAO in September, 2019.The management reported that GoP share was only 23% of the total projected amount and remaining 77% was the Company's own investment and with the same proportion total amount of unspent balance against GoP investment was Rs 276

million and that too was not final until completion of entire projects to which these jobs relate. The reply was not tenable because the management was required to surrender savings to GoP proportionately. No further progress was reported till finalization of the report.

Audit recommends that non-surrendering of savings needs to be justified besides fixing of responsibility and surrendering the savings in completed jobs / schemes to the respective government proportionately.

[DP No.530 ]

***2.5.6.41 Irregular expenditure on account of POL in LNG Projects - Rs 86.217 million***

According to Section 2.1.2.1(IX & X) of the Project Manual of SNGPL, Sui Northern Gas has switched over on PSO Fleet card arrangement and management at Camp is the responsibility of A.O (F) as advised by memo No. 2006. Appointment of fuel station A.O (F) with the association of Accounts / Compliance visit nearby fuel station and after necessary documentation case will be sent to GM (LS) for approval through GM (P) / A.O (P). Further as per Accounts Manual Section 8.4.2 Engineer Incharge Construction (EIC) is the administrative head of the construction site and all expenses incurred at camp site are approved by EIC.

During audit of SNGPL for the FY 2018-19, it was observed that in 306 illustrative cases, an amount of Rs 86.217 million was expended for purchase of POL from local fuel stations instead of fuel cards on the basis of vouchers without mentioning any number of vehicle and current running of vehicle. Fuel was also purchased for construction equipment for which no log books were produced to Audit. Further, it was also observed that cash memos were of consecutives numbers for consecutive dates, original and carbon copies of the cash memos both attached with the paid vouchers. In view of the foregoing Audit held that the expenditure of Rs 86.217 million was irregular and apparently seemed to be misappropriated.

Audit is of the view that due to weak internal control, poor financial monitoring and non-compliance of provisions of project manual, payment on

account of POL through imprest resulted in irregular expenditure on account of POL.

The matter was reported to the PAO on October 10, 2018. The management replied dated November 06, 2019 explained that camps were situated in remote areas requiring fuel in bulk on credit basis so that company made a contract with the fuel station. As being the sole purchaser of fuel on credit, no cash memo was issued to any other company or organization by the fuel station. Hence, the cash memo numbers were observed in sequence. The reply is not tenable because most of the camps were situated near main high ways or main roads on which petrol pumps were easily available. Further, basic procedure and regulations were not observed for purchase and payment of POL. No further progress was reported till finalization of the report.

Audit recommends that financial lapses / anomalies occurred in payments of POL be addressed / removed besides ensuring purchasing of POL for vehicles under Fleet card arrangement instead of on cash.

[DP No. 559]

### *2.5.6.42 Non-up lifting of disconnected pipe line - Rs 37.656 million*

According to Rule4.3 of The Natural Gas Distribution Technical Standards Regulations, 2004, removal of a portion of an existing steel line and reuse of the pipe in the same line, or in a line operating at the same or lower pressure, is permitted subject to only the following restrictions. Used steel pipe or, unidentified new steel pipe may be used for low-stress level service where no close coiling or close bending is to be done, provided careful visual examination indicates that it is in good condition and free from split seams or others defects

During audit of SNGPL for FY 2018-19, it was observed that SNGPL was providing gas to Sargodha via 6” dia pipeline measuring 20.92 Km. The pipeline, however, was insufficient to meet the gas needs of the city therefore SNGPL laid another pipeline of 16” dia in 2017 and disconnected the 6” dia pipeline. The disconnected pipeline was therefore, needed to be removed but the management not only failed to uplift valuing Rs 37.656 million but was claiming

guaranteed return on such non-operational pipeline in revenue requirement for the FYs 2017-18 and 2018-19.

Audit is of the view that weak project management and poor financial controls resulted in non-uplifting of the pipeline valuing to Rs 37.656 million for its alternate use.

The matter was reported to the PAO in September, 2019, the management replied that 6” dia line was acting as parallel loop line and presently gas to SMS Khayaban was being provided through this line. However, the same would be considered for uplifting keeping in view the future demands in the region. The reply was not tenable as this line was disconnected from Sargodha off take supply point which meant that it was lying useless. Further, 16” dia pipeline in place of 6” dia was very sufficient to meet the future demand of the area. No further progress was reported till finalization of the report.

Audit recommends to ensure uplifting the old pipeline for its alternate use besides improving financial management.

[DP No. 769]

### *2.5.6.43 Irregular procurement of services for pipe laying and excess payments to contractors – Rs 515.073 million*

According to Appendix C 3(xiii) of bidding document vide No SGMD-255A dated October 12, 2017 bidders are required to provide the requisite documentary evidences regarding registration with EOBI, Provincial Social Security Institution, and certificate of keeping average balance in banks showing financial solvency. Further, according to Operational & Distribution Manual mainly deals with installation of pipe in distribution development projects. Paras 2.191, 2.2, 2.353 & 2.261 envisage the preparation of Daily Site Report and returns showing the details of pipe laying and welding / jointing work on daily basis. Further, as per Para 2.361, 2.371 & 2.372,site measurements will be checked 100% by Associate Engineer / Deputy Engineer (Distribution) and 20% by Senior Deputy Engineer /Distribution Chief Engineer before these are verified for payment. Progress/ final Payment Certificates will be finalized on the basis of verification of site measurements.

During audit of SNGPL for the FY 2018-19, it was observed that there was following short-comings in the execution and monitoring of distribution development projects:

i) In Faisalabad region, 23 bidders were selected as pre-qualified contractors despite the fact that bidders were not registered with Employees Old Age Benefit Institution (EOBI) and Provincial Social Security and none of the bidders produced certificate(s) from banks confirming average balance during the last six months. Moreover, the management prequalified these bidders and subsequent contracts worth Rs 468.068 million were awarded for laying of pipeline which resulted in irregular procurement of services.

ii) In Islamabad region, progress / final payments of Rs 2.453 million were made in 10 cases without verifying the site measurements as either no Daily Sites Reports or less quantity in DSR in support of contractors claim were available.

iii) Daily Site Reports of various jobs showed that quality of bricks laid over the pipeline was not as per standards (i.e. 2nd class), hence not only conformance to the performance standard relating to quality of brick laying was ignored but also less deductions were made which resulted in over payment of Rs 2.94 million to contractors.

iv) In 173 cases, management did not deduct retention money of Rs 41.612 million from the PPCs / FPCs while making payment to contractors. The retention money was required to be deducted as per general terms and conditions (condition 27) of the contract awarded to the contractors till successful completion of maintenance period.

v) In Abbottabad, Islamabad, Gujranwala Regions, deduction on account of low depth of trench and 2nd class bricks were made in 56 FPCs out of 81 FPCs submitted by contractors. This meant that performance and technical standard was compromised up to 69%. In 28 other cases, deduction for low depth was also not made. However, the management did not impose any penalty on the contractors for deviation from the technical standards.

Audit was of the view that as per above-mentioned short-comings in the distribution development projects, no site measurement record was being

maintained by the distribution development departments from which contractors' claims could be verified and no monitoring mechanism existed to ensure conformance to performance and technical standards.

The matter was reported to the PAO during September to November, 2019. The management replied that in respect of regional office, Islamabad and Gujranwala the contractors had been advised to use first class bricks and head office was requested to advise rate of deduction in case of $2^{nd}$ class brick. Laying of Network was done as per approved standards and specifications, however due to site constraints 100% compliance was not possible. Further the retention money was being deducted from Final Payment Certificate as per prescribed rates.

The reply is not tenable because replies of regional offices were of general nature and no case-wise position was given. However, it is the responsibility of distribution development department to ensure the depth of trench, quality of brick and laying of pipe as per standard and specification. Further the proper site record to be prepared on daily basis and factual position relating to brick laying in all cases to be ascertained and corrective action including recovery of any over-payment be taken accordingly. Non-deduction of retention money was mainly pointed out in PPCs and the management did not give specific reply on case to case basis along with supporting documents. No further progress was reported till finalization of the report.

Audit recommends that:

i) Ensure registration of the contractors with the EOBI and Social Security and enrolment of labour with these institutions;

ii) Proper site record be prepared on daily basis and ensure prior verification of measurement to validate the contractors claim;

iii) Adequate mechanism for monitoring of brick laying and depth of trench for pipe laying with proper authentication by the Site Incharge be introduced to ensure the conformance to the Performance Standards;

iv) Excess payments of Rs 47.005 million to contractors due to non-deduction of retention money and other deductions be recovered; and

v) Proper and well documented monitoring mechanism of projects be ensured so that development projects could be completed in time.

[DP Nos. 538, 550 485, 488,495, 547, 555, 783 & 860]

**Regulatory Affairs**

***2.5.6.44 Excess determination of revenue requirement due to non-inclusion of non-theft charges in other operating income - Rs 17,666.035 million***

According to Para 1.4.4 & 1.4.5 of Tariff Regime for Regulated Natural Gas Sector in Pakistan, all revenues directly generated in carrying out the licensed regulated activities other than sale of natural gas shall be treated as operating income. All indirectly generated revenues / income from an activity shall be shared between license and consumer as per Authority decision. The connection of an income as directly or indirectly inter-allia an operating / non-operating as a matter of principle shall be judged by the Authority based on the parameters like degree of relevancy with the regulated activity.

During audit of SNGPL for the FY 2018-19, it was observed that the management booked an amount of Rs 23.779 million from 2,930 domestic consumers and Rs 17,642.256 million from 8,797 Other Than Domestic (OTD) consumers on account of "non-theft, damage charges, sticky meter charges, meter cost, and under billing due to less volume & price differential / tariff adjustment etc." during FY(s) 2016-17, 2017-18 and 2018-19.But the management did not include the same in "Other operating income" for the purpose of determination of revenue requirements for the aforesaid financial years. The receipts of non-theft charges were generated as a result of regulated activities for supply of natural gas and booked / received from the consumers.

Audit is of the view that due to non-inclusion of non-theft charges in Other Operating Income, the revenue requirement of the company was determined in excess, the burden of which was ultimately passed on to consumers.

The matter was reported to the PAO on October 24, 2019. The management informed that out of Rs 17,642.256 million, Rs 3,340.994 million relates to GST, withholding Income Tax and GIDC which is charged to their relevant heads whereas remaining amounts were either included in operating income or gas sales and resultantly had been offered to the regulator for adjustment against Company's revenue requirement.

The reply is not tenable being of general nature because management did not give any details of non-theft charges included in sales / operating income (year-wise) and no documentary proof was provided in support of its stance. Further, amounts on account of non-theft charges pertained to previous periods and billed in subsequent years. Due to this sales volume as well as amount should have been increased in the current years because additional billings were done in addition to current sales. No further progress was reported till finalization of the report.

Audit recommends treatment of non-theft charges as other operating income for the purpose of revenue requirement and to make corresponding adjustments in next FRR besides providing the details of recovery of non-theft charges / under billing amounts.

[DP No. 511]

### *2.5.6.45 Non-refund of over-billing against application of pressure factor to domestic consumers - Rs 2,237 million*

As per agenda item-B (5937) of 521st BoD meeting dated March 9, 2019 regarding “Fact Finding Inquiry on application of pressure factor” it was informed that out of 6.4 million consumers, pressure factor was applied to 3.4 million consumers. Further, OGRA also directed SNGPL vide Review of Estimated Revenue Requirement (RERR) for the FY 2018-19 in February, 2019, “The Authority therefore, once again directed the petitioners to pass on reversal to the affected consumers due to application of pressure factor above 8 inches of water column across the board for the period from July, 2018 to February, 2019. The Company is also directed to strictly follow Clause-11of the Standard Domestic Contract and stop application of pressure factor above 8 inches of Water Column in the domestic consumers’ gas bills in future”.

During audit of SNGPL for the FY 2018-19, it was observed that the management applied wrong pressure factor above 8” water column which resulted in over-billing of Rs 2,237 million to domestic consumers during December 2018 to February 2019. The management however, did not implement the decision of Federal Government / OGRA regarding reversal to the affected consumers with application of wrong pressure factor till June, 2019. The matter was discussed repeatedly in BoD meetings on 09.03.2019, 19.06.2019, 26.06.2019 and 29.06.2019 and the company filed writ petition against OGRA’s decision in Lahore High Court. Despite directives of BoD in March, 2019 regarding submission of weekly report on the consumers checked / identified volume / amount involved and date for making the refunds, the management prolonged the matter of making refund till June, 2019.

Audit is of the view that due to non-compliance of OGRA’s directives, refund to affected consumers with the application of wrong pressure factor could not be made.

The matter was reported to the PAO on October 27, 2019 but no reply was received so far.

In DAC meeting held on January 16, 2020 management explained that the application of pressure factor was inevitable and was an essential part of gas measurement without which under-measurement will result in loss to the exchequer. The matter was sub-judice and the next date of hearing was February 19, 2020. The company had however arranged cross checking of the cases as the delivery pressure could vary from time to time depending upon different parameters. As a result of cross checking a rebate of Rs 50 million had been disbursed to the consumers. The BoD had approved further rebate of Rs 463 million which would be processed in the bills of January, 2020.

The DAC directed the management to provide the results of physical verification of affected consumers, get the amount of rebate of Rs 50 million verified from Audit and expedite the grant of rebate of Rs 463 million to affected consumers. DAC further directed the management to pursue the court case vigorously and intimate the action taken against the consumers who enhanced the pressure. No further progress was however reported till finalization of the report.

Audit recommends to explain the reasons for delay in implementation of directives of Federal Government / OGRA and provide details of refunds / adjustments made to domestic consumers besides taking stern action against persons responsible for excess-billing.

[DP No. 527]

***2.5.6.46 Unjustified expenditure on account of employees' retirement benefits– Rs 5,241 million***

Rule 17(h) of NGT Rules section 8(1 & 2) of the OGRA, 2002, provides "tariff should generally be determined taking into account a rate of return as provided in the license, a prudent operation and maintenance costs, depreciation, government levies and if applicable financial charges and cost of natural gas".

During audit of SNGPL for the FY 2018-19, it was observed that SNGPL claimed Rs 3,210 million on account of actuarial losses "Employees Retirement Benefits such as Pension and Gratuity etc." during 2014-15 to 2018-19 over and above the HR cost benchmark determined by OGRA. As per OGRA's HR cost benchmark, expense on account of pension and gratuity etc. on retirement of employees was met from HR cost benchmark on yearly basis whereas actuarial losses due to increase in indexation rate was added in the HR cost over and above the benchmark. Furthermore, in FRR 2016-17, an amount of Rs 4,902 million on this account was also included in revenue requirement as an operating expenditure.

The decision of BoD regarding increase in indexation rate (7.75%) by linking it with the increase in pension by the GoP on yearly basis was re-considered in 2018 and indexation rate was decreased to 5%. Resultantly, an amount of Rs 2,871 million was reversed in FRR 2017-18. Hence, an aggregate extra cost of Rs 5,241 million (Rs 3,210 million and Rs 2031 million) was passed on to the end consumers over and above HR cost benchmark during the FY 2014-15 to 2018-19.

Audit is of the view that as a result of an imprudent decision of management / BoD, extra cost on account of employees' retirement benefits over

and above HR cost benchmark was determined resulting in an additional cost amounting to Rs 5,241 million.

The matter was reported to the PAO on September 26, 2019. The management replied that during FY 2014-15, company changed its policy for recognition of actuarial losses due to the change in IAS 19. In FY 2016-17 OGRA provisionally allowed Rs. 2,451 million (50% of Rs 4,902 million) with the direction to change its Indexation Policy. After that, the BoD revised the Indexation Policy by linking it with Government of Pakistan for the existing pensioners and for employees retiring after November 11, 2017 (future pensioners), at 5% for the year 2017-18 and onwards. The Policy was shared with OGRA and OGRA allowed remaining 50% amount.

The reply is not tenable because the expense on account of pension and gratuity is required to be met from and within HR cost benchmark being part of it on yearly basis. Indexation policy by linking the annual increase in pension with GOP is not justified because pay structure of the company is on much higher side than that of Government employees. No further progress was reported till finalization of the report.

Audit recommends that:

i) Under regulated regime, all decision having impact on revenue requirement of the company should be taken in the light of the approved parameters / guidelines of OGRA / Federal Government;

ii) Extra benefits given to the employees to the tune of Rs 5,241 million over and above the HR cost benchmark should be borne by the company from out of its own profit;

iii) Excess HR cost / employees' retirement benefits be adjusted in the next FRR; and

iv) Indexation policy linked with GoP rate for annual increase in pension be reviewed.

[DP No. 871]

### *2.5.6.47 Excess booking of cost of gas purchased – Rs 4,063.715 million*

According ECC decision in its meeting on 17.05.2018 conveyed by the Ministry of Energy (Petroleum Division) on May 31, 2018, ECC approved that the weighted average cost of gas equalization shall be held in abeyance till such time the Committee comprising members from Petroleum Division, Finance Division, Planning, Development & Reforms Division and OGRA submits its recommendations to ECC. An option of replacing the weighted average cost of gas (WACOG) equalization arrangement with a new arrangement of weighted average sale price (WASP) equalization agreement, was to be reviewed by the Committee.

During audit of SNGPL for the FY 2018-19, it was observed that in the absence of WACOG, the management overstated cost of gas purchased from Soghri, Dhakhni, Qadirpur and Nashpa as compared to sales data of E&P companies furnished to DG (PC) for payment of royalty on gas as well as compared to invoice data of E&P companies. SNGPL claimed volume of gas purchased more than the volume of gas sold by E&P companies. The overstated cost of gas to the tune of Rs 9,417.376 million claimed by SNGPL resulted in excess revenue requirements and ultimate higher selling prices for end consumers. On the other hand, SNGPL management also understated cost of gas purchased from Sui, Sadkal, Kandhkot and Chachar gas fields as compared to sales data of E&P companies (OGDCL / PPL etc.) furnished to DG (PC) for payment of royalty on gas as well as compared to invoice data of E&P companies. Cost of gas thus was understated to the tune of Rs 5,055.661 million. Resultantly, total cost of gas availed by SNGPL was inflated by Rs 4,063.715 million.

Audit is of the view that due to over / under statement of cost of gas, determination of revenue requirement / tariff determination became doubtful and overstated cost of gas resulted in high prices and extra burden was being passed on to the end consumers.

The matter was reported to the PAO on September 27, 2019.The Management stated that the SNGPL records cost of gas volume received from different gas fields at rate notified by OGRA. In FY 2018-19, total 443,093 MMCF of gas was purchased worth Rs 174,961 million. The reply is not tenable

because no documentary evidence was provided in support of their reply. Further, copies of sales invoice data of OGDCL and PPL had been provided to the management for necessary action. Further, progress was not reported till finalization of the report.

Audit recommends that all discrepancies / variances in gas volumes purchased by SNGPL and sold by the E&P companies be sorted out and corresponding adjustments be made in cost of gas at the time of FRR.

[DP No. 521]

***2.5.6.48 Non-inclusion of "Return on Bank Deposits" on security in Other Operating Income - Rs 301.139 million***

According to Para 1.4.4 & 1.4.5 of Tariff Regime for Regulated Natural Gas Sector in Pakistan, all revenues directly generated in carrying out the licensed regulated activities other than sale of natural gas shall be treated as operating income. The connection of an income as directly or indirectly inter-allia an operating / non-operating as a matter of principle shall be judged by the Authority based on the parameters like degree of relevancy with the regulated activity, degree of risk / required incentive to company, management efforts in the operation of the activity and overall tariff structure.

During audit of SNGPL for the FY 2018-19, it was observed that the management earned "Return on Bank Deposits" amounting to Rs 301.139 million but did not include the same in Other Operating Income in the FRR for the FY 2017-18.

Audit is of the view that return on bank deposits is directly related with the regulated activity because the amount of security deposits kept in banks is directly related with the gas supply. Hence, the return on bank deposits should be treated as Other Operating Income for the purpose of FRR / ERR.

The matter was reported to the PAO on September 25, 2019. The management replied that as per World Bank loan agreement as well as current tariff regime (in vogue) interest income on bank deposits viz a viz interest expense on debt are non- operating income and expense respectively. The reply

is not tenable as the World Bank loan had already been repaid and the regime has also been changed and in new tariff regime, interest income on bank deposits of consumers as security was directly related with the regulated activity i.e. gas supply.

Audit recommends treatment of return on bank deposits as Other Operating Income for the purpose of revenue requirement and make corresponding adjustments on this account in next FRR.

[DP No. 513]

### *2.5.6.49 Wrong booking of expenditure on account of workers profit participation fund -Rs 1,138 million*

Supreme Court of Pakistan vide its judgment 2016 dealing with Workers Welfare Laws, in para 10 categorically stated that after the 18th amendment to the Constitution of Islamic Republic of Pakistan, the Labour Law Regime had been devolved to the provinces. However, Punjab Government has not yet made its own law on the subject.

During audit of SNGPL for the FY 2017-18, it was observed that WPPF of Rs 1,138 million was booked and deducted in the Estimated Revenue Requirement for the FY 2018-19. Since labour laws had been devolved to the Provinces and Punjab Government had not yet made their workers welfare laws, no payment on the account of WPPF was being made to the employees.

Audit is of the view that inclusion of WPPF as an expense while determining the Final / Estimated Revenue Requirement for the FY 2018-19 without making any payment to employees was not correct until Punjab Government introduced workers welfare laws.

The matter was reported to the PAO on September 25, 2019. The management stated that company prepared its accounts on accrual basis instead of cash basis. The company believed that once welfare laws were prepared by the Punjab Government, the Company would be obligated to pay WPPF for all the years to which the liability related until then the amount would remain outstanding in the liability account. The reply is not tenable as in the absence of relevant rules since 2010, neither record relating to provision / liability created

on the account of WPPF up-till- now nor details of any interest / mark up earned on the WPPF funds kept in bank accounts since 2011-12 was provided. As per IAS 19 with the amount of interest earned, the liability on this account should be reduced otherwise the same should be included in other operating income.

Audit recommends to provide the details of liability created on account of WPPF and interest earned thereon besides making adjustment / reduction in WPPF liability equal to the interest amount or including the same in other operating income.

[DP No. 512]

**Value for money and Service delivery issues**

***2.5.6.50 Non provision of connections despite deposit of demand notices since 2009***

As per Clause 28.1 & 28.2 of the Sales Manual, domestic applications shall be received at all Regional Offices and designated Consumer Service Centres along with photocopies of the NIC, electricity bill of the applicant and if possible gas bill of the neighbour. Afterwards sales section incharge or any other officer authorized by him shall arrange processing of domestic applications on turn / merit basis. As per clause 28.3 of the Sales Manual to facilitate the applicants who desire expeditious gas connection i.e. "out of turn" for domestic purposes, a separate record of seniority shall be maintained for urgent fee cases.

During audit of SNGPL for the FY 2018-19, it was observed that management failed to install 33,016 meters despite receiving demand notices amounting Rs 198.09 million from the applicants. Audit held that non-installation of meters was tantamount to negligence on the part of the management despite deposit of demand notice as the deposit of demand notice was the last step for installation of the meter.

Audit is of the view that negligence of the management resulted in non-installation of meters despite deposit of demand notice.

The matter was reported to the the PAO in October and November, 2019. The management replied that the connections were installed as per target / quota allocations to the regions, according to the total number / budget approved by OGRA. The reply is not tenable as case-wise reasons for non- installation of meters despite deposit of demand notices had not been shared so that it could not be ascertained whether connections were being installed on merit basis.

In DAC meeting held on January 16, 2020 management explained that out of the total 32,902 cases, payments in 6,810 cases had not been received. Service line had been installed in 11,792 cases whereas meters had been installed in 9,221 cases and for remaining 16,871 cases fresh directions had been issued to all the regions for expediting pending meter installations / connections.

DAC directed the management to get the record relating to connections provided to the consumers verified from Audit besides expediting the installation of pending connections. No further progress was however reported till finalization of the report.

Audit recommends to explain reasons of non-installation of meters on case to case basis despite deposit of demand notices besides expediting the installation of meters expeditiously.

[DP No. 546]

### *2.5.6.51 Non provision of new gas connection to more than one million applicants despite lapse of merit dates*

According to Sales Manual of SNGPL, applications for new domestic, commercial and industrial connections are processed as per prescribed procedures given in chapters 28, 42 & 51 of the manual respectively. Further, applications are received along with photocopies of the CNIC and electricity bill of the applicant, and (if possible) gas bill of neighbour (in case connection exists in the adjacent premises).

During audit of SNGPL for the FY 2018-19, it was observed that 2.113 million applications were received by the management for new gas connections till 30.06.2019. As per “new connection merits” shown on the company’s

website (region-wise), all the applications upto those merit dates were entertained but the fact was that 1.254 million applications, which were pertaining to previous period of merit dates, were still not installed despite lapse of 01 to 12 years. Further, there were 859,190 other applications (pertaining to after merit dates) which were also pending, aggregating non-installation of 2.113 million connections up to June 30, 2019. Pendency of 1.254 million applications (before merit dates) and 859,190 applications (after merit dates) indicated that the claim of the company was incorrect.

The above situation reveals that the management could not install gas connections due to negligence and inefficiency.

The matter was reported to the the PAO in August, 2019 and management replied that applications might fall on merit but could not be processed due to various reasons. The reply is not tenable because there was pendency of 1,253,966 applications upto different merit dates being shown on the website of the company. Further, category-wise reasons for not starting the process of installation of connections were not given.

Audit recommends to justify not initiating the process of installation of connection despite meeting criteria of merit / turn basis and effective measures for installation of connections be taken.

[DP No. 499]

### *2.5.6.52 Inaction on OGRA complaints and recommendations - Rs 7.212 million*

According to Section 7(1&2) of Complaint Resolution Procedure, 2003 of OGRA, Licensee to respond. (1),the Designated Officer shall forward a copy of the application to the licensee requiring a response from the licensee within 15 days of receiving the copy of the application; or any other period specified by the Designated Officer.

During audit of SNGPL for the FY 2017-18, it was observed that management had not responded to 705 complains of consumers to OGRA within stipulated time period of fifteen days despite lapse of period up to 1293 days.

Further, in 322 other cases involving an amount of Rs 7.212 million, the management had not implemented the decisions of OGRA.

Audit is of the view that due to weak managerial control the complaints were not attended timely. The non-action on pending consumers' complaints and non-implementation of decisions was a violation of above law requiring penal action.

The matter was reported to the PAO on November 15,2019. DAC in its meeting dated November 26, 2019 directed the management to address complaints at the earliest, provide the consumer wise status of the cases and get it verified from Audit. No further progress was reported till finalization of the report.

Audit recommends implementation of OGRA's decisions and justifying non-submission of reply to OGRA's complains besides fixing responsibility for this inordinate delay.

[DP No. 329& 303]

### *2.5.6.53 Non-inclusion of penal clause in agreement with NIFT - Rs 697.948 million*

According to Para 11 of Agreement dated February 26, 2018, any adjustment entries (non-punching/wrong punching of scrolls/stubs) reported by SNGPL offices and falling under negligence of contractor/service provider, shall not be chargeable by contractor/service provider.

During audit of SNGPL for FYs 2017-18 and 2018-19, it was observed that management executed an agreement with National Institutional Facilitation Technologies (NIFT) for punching of receipt of gas bills without inserting any penal clause in case of non/less punching of gas bill payments. In 2,835 cases, NIFT failed to punch amount of receipt from bank scrolls which resulted in booking of arrears along with LPS to consumers. Further, this lapse on part of NIFT management caused undue inconvenience to consumers for getting necessary correction from SNGPL despite making timely payment. On the other hand this also put an extra burden on management for waiving off the LPS

wrongly charged due to negligence of NIFT. During one year in one region NIFT failed to punch the 16,402 cases involving an amount of Rs 697.948 million without having being penalized by the management.

Audit is of the view that due to non-insertion of any penal clause for non-punching, NIFT keeps repeating this.

The matter was reported to the PAO in April, 2019.The management replied that according to clause 11 of agreement signed between M/s NIFT and SNGPL for Gas Bill Data Gathering & Processing "any adjustment entries reported by SGNPL office and is falling under negligence of NIFT shall not be chargeable by NIFT". Implementation of above clause was being carried out at head office level at the time of monthly payment to M/S NIFT. The reply of management is not tenable, because agreement was defective which needed to be revised by inserting penal clause to reduce such erroneous punching in future.

Audit recommends to initiate necessary remedial action to amend the service agreement.

[DP Nos. 532 & 725]

**Others**

***2.5.6.54 Pendency of legal cases due to ineffective pursuance by Law Department – Rs 24,530.483 million***

According to Section 19.2 of Billing Manual, Regional Law Officer and / or concerned departmental executive / official will attend Gas Utility/High Court on advice from Company counsel/Regional Law officer for evidence and presenting company's viewpoint effectively and try to save company's interests as far as possible. Further, as per Section 19.9 of manual ibid, Regional Law Officer will arrange/maintain complete history and update of legal cases pending or decided by Courts of Law.

During audit of SNGPL for the FY 2008-19, it was observed that 5,712 suits for recovery amounting to Rs 21,377.229 million were pending in different courts of law / gas utility courts since 2003. Apart from huge pendency of recovery suits, 502 cases of execution petitions, appeals, civil revision and writ

petitions etc. amounting to Rs 3,153.254 million were also pending in different courts of law. This position of pendency in legal cases was upto June, 2018 and updated position as on 30.06.2019 was not provided. In the 30th meeting dated 04.05.2019 of Risk Management Committee of BoD, CFO apprised that a sum of Rs 32,500 million was stuck up in litigation cases (as per agenda item-B para 2.5 of minutes). Huge pendency of long standing legal cases showed that the performance of Law Department was not satisfactory. The Committee further observed that there was no specific criteria for gauging the performance of legal counsels and no success ratio / percentage had been maintained by the Law Department. RMC also directed to carry out qualitative analysis of performance of advocates on panel.

Audit is of the view that slack pursuance by Law Department in addition to company's panel of litigation cases resulted in huge pendency in different courts of law and gas utility courts.

The matter was reported to the PAO on October 27, 2019. The management replied that 308 recovery suits involving an amount of Rs 1,901.879 million had already been decided in company's favour whereas 288 pending recovery suits pertained to the period 2014 and subsequent years. The reply is not tenable as the case-wise updated position of pending cases were not provided and status of recovery of decreed amount of Rs 1,901.879 million was not intimated.

Audit recommends to provide updated status of legal cases / recovery suits with aging, details of last hearings / proceedings / next hearings and status of inquiry as directed by RMC with respect to procedure for gauging the performance of legal counsels

[DP No. 557]

### *2.5.6.55 Non-integration of departments with ERP and non-carrying out of BPR*

According to Para 2.31 of 95th Audit Committee (AC) Meeting dated 12.12.2018, vide minutes No 4 (4.9) dated 12.05.2018 regarding Enterprises Resource Planning-ERP Integration, the Chairman AC expressed severe

reservation that most important departments such as HR, Procurement, Inventory etc. were not ERP-integrated. Audit Committee vide para 2.38 expressed severe reservation and concern that despite expending huge amount in 2008 on getting ERP from Oracle, the main departments were not integrated with it.

During audit of SNGPL for the FY 2018-19, it was observed that the management failed to complete ERP integration of all departments since 2008 despite spending huge amount on getting ERP from Oracle as evident from reservations raised by Audit Committee. Further, Business Process Re-engineering (BPR) was also in progress for which no timeline was set for implementation. No final progress regarding integration of all departments with ERP and finalization of BPR (department-wise) till June, 2019 was available.

Audit is of the view that non-integration of important departments such as HR, Procurement, Inventory etc. with ERP despite lapse of more than ten years of acquisition of ERP led to loose control, lack of transparency and compromised efficiency as observed by the Audit Committee of BoD.

The matter was reported to the PAO on October 27, 2019. The management replied that the all Oracle ERP modules were fully integrated with each other and basic functionality as per business requirements in these modules had also been implemented and being used by business departments across SNGPL. The reply is not tenable because important departments such as Development, Distribution, UFG, Operation & Maintenance and Project/LNG department etc. were not integrated. with ERP despite lapse of more than ten years of acquisition of ERP.

Audit recommends to explain the reasons for non-integration of all the departments with ERP despite lapse of more than ten years and intimate the latest status of integration of all departments with ERP and finalization of BPR (department-wise) besides fixing responsibility for non-integration of important departments with ERP.

[DP No. 553]

***2.5.6.56 Weak observance of corporate governance / company manuals - Rs 186.693 million***

According to Para 8.3.100 of DERR for the FY 2017-18, OGRA observes that expenses on Board meetings & director expenditures are not directly associated with the petitioner's core activities, yet the same are necessary and are part of established organizations. There is however dire need to incur the expenses under the head judiciously maintaining a consistent and prudent approach.

According to Para 11, 32 & 112.4.4.1-11 of HR Manual of SNGPL, the salary payable is subject to statutory deductions such as income tax, loan / advances, recovery of the loss sustained by the company. Further BoD is responsible for making succession plan for the positions of Grade VIII, IX & X will be prepared by HR Department and monitored & approved by the Management Committee. Human Resource & Nomination Committee will prepare, monitor & approve succession plan for the position of MD on similar lines as HR Department for all other positions.

According to Section 13(11) of Income Tax Ordinance, 2001, where, in a tax year, property is transferred or services are provided by an employer to an employee, the amount chargeable to tax to the employee under the head "Salary" for that year shall include the fair market value of the property or services.

During audit of SNGPL for the FY 2018-19, it was observed that management either did not recover or failed to take necessary action in respect of following cases:

(Rs in million)

| Sr. No. | DP No. | Subject | Remark | Amount |
|---|---|---|---|---|
| 1 | 517 | Unjustified expenditure on BoD and Committees meetings and Directors' expenditure on non-comprehensive agenda items | The management failed to incur the expense on 22 Board meetings and 35 its Committees meetings within approved limit of OGRA i.e. Rs 29 million, whereas, actual expenditure under this head was incurred amounting to Rs 67.690 million during the FY 2018-19 resulting in excess expense of Rs 38.69 million. | 38 |

| 2 | 541 | Non-submission of implementation status of BoD directives for Board's review | Implementation status of last 15 meetings was piled up for BoD review on which members of BoD showed serious concern. | 0 |
|---|---|---|---|---|
| 3 | 776 | Non-preparation of succession plan for the post of CFO | Management did not prepare succession plan on retirement of CFO in April,.2019 who was re-employed upto December 31, 2019. | 0 |
| 4 | 773 | Non-deduction of income tax on sale of vehicles to employees below the fair market value | Fair value of vehicles and deduct income tax thereon is required to be determined under Section 13(11) of Income Tax Ordinance, 2001 from the employees on sale of company vehicles which was not done. | 3.18 |

* details of remaining cases is given in **Annex-12**)

Audit is of the view that weak corporate governance, tax compliance and non-observance of rules due to slack internal controls resulted in loss of Rs 186.693 million.

The matter was reported to the PAO during December, 2019. The management replied in general term without giving case to case justification of all above-mentioned lapses instead of making concrete efforts for redressal.

Audit recommends to justify the above-mentioned lapses and take remedial measures for early recovery, ensuring strict corporate governance and compliance of company rules besides improving internal controls.

[Annex-12]

## 2.6 Sui Southern Gas Company Limited

### 2.6.1 Introduction

Sui Southern Gas Company Limited (SSGC) is a public limited company incorporated in Pakistan and is listed in Pakistan Stock Exchange. Direct and indirect shareholding of GoP in the company is more than 59.74%.

The main activity of the company is transmission and distribution of natural gas in Sindh and Balochistan. The company is also engaged in certain activities related to the gas business including manufacturing and sale of gas meters, construction contracts for laying of pipelines and transportation of RLNG to SNGPL. SSGC is serving more than 3.070 million consumers in Sindh and Balochistan through an extensive network of pipeline (56,618 KMs). However, the company is facing with the problems of low profitability due to high UFG losses. During the FYs 2017-18 and 2018-19, the company failed to finalize its accounts and to resolve its issues with OGRA leading to non-determination of its revenue requirements for the aforesaid financial years.

### 2.6.2 Comments on Audited Accounts

The audited accounts for the FYs 2017-18 and 2018-19 were not finalized. The working results of the company for the financial year 2016-17 (consolidated) as compared to the previous years are tabulated below:

(Rs in million)

| | **2016-17** | **% Inc. / (Dec.)** | **2015-16** |
|---|---|---|---|
| Net Sales | 156,673.00 | 13.03 | 138,616.10 |
| Cost of Sales | 157,524.02 | (3.62) | 163,440.13 |
| **Gross profit / (loss)** | **(850.75)** | **96.57** | **(24,824.03)** |
| Transmission and Distribution Cost | 16,853.611 | 4.32 | 16,155 |
| Administrative and Selling Expenses | 4,409.98 | 12.44 | 3,922.01 |
| Other Operating Expenses | 3,303.25 | 40.56 | 2,350.10 |
| Other Operating Income | 6,559.59 | 140.48 | 2,727.68 |
| **Operating profit / (loss)** | **(2,004.39)** | **(92.93)** | **(28,368.46)** |
| Other non-operating income | 7,185.01 | (69.24) | 23,354.69 |
| Finance Cost | 1,694 | (35.32) | 2,618.87 |
| **Profit / (loss) before taxation** | **3,485.88** | **145.67** | **(7,632.64)** |
| Taxation | 2,011.09 | 13.51 | 1,771.75 |
| **Profit / (loss) after taxation** | **1,474.79** | **125.16** | **(5,860.88)** |

*(Source: Annual Audited Accounts)*

i. Other operating expenses during the year under review increased to Rs 3,303.25 million as compared to Rs 2,350.10 million in 2015-2016 registering an increase of 40.55%. Reasons thereof need to be elucidated.

ii. HR cost of Rs 13,377 million was claimed in FRR 2016-17 whereas audited accounts for the FY 2016-17 reflected Rs 12,451.962 million on account of salaries, wages and benefits and employee medical and welfare. This showed an overstatement of HR cost of Rs 925 million in the FRR 2016-17 which caused extra burden on end consumers and needed to be justified / reconciled besides taking remedial action.

iii. As per FRR 2016-17, OGRA determined fixed assets as on June 30, 2017 valuing Rs 126,465 million whereas audited annual accounts (consolidated) showed total fixed assets valuing Rs 108,383.400 million as on June 30, 2017. This showed that there was either an understatement of assets to extent of Rs 18,081.6 million in the audited accounts or overstatement of assets in FRR for availing excess guaranteed rate of return.

iv. In Note 31 and 31.1.3 relating to Other Receivables, an amount of Rs 21,264.629 million on account of GDS were shown as receivable from Government whereas OGRA determined a shortfall of Rs 11,502 million as per FRR 2016-17. This showed overstatement of GDS amounting to Rs 9,762.629 million. Moreover, an amount of Rs 946 million was included in GDS on account of actuarial losses under IAS 19 which were also included in revenue requirement (total shortfall) as an expense separately. The overstatement of GDS and inclusion of actuarial losses in GDS needed to be justified / reconciled besides taking remedial action.

v. While qualifying their audit report for the year 2016-17, external auditor reported that trade debts included receivables of Rs 32,378 million (2016: Rs 35,949 million) and Rs 22,310 million (2016: Rs 21,708 million) from K-Electric Limited (KE) and Pakistan Steel Mills Corporation Limited (PSML) respectively. Both parties have disputed late payment surcharges (LPS) on their respective balances.

vi. Trade Debts of the company stood at Rs 95,959.009 million during the year 2016-17 (Note 27), out of which an amount of Rs 18,077.128 million was

secured while remaining huge amount of Rs 77,881.881 million was unsecured. In the absence of security against unsecured amount, chances of recovery become doubtful. Efforts may be made to recover the unsecured amount at the earliest besides making this amount secured.

vii. Trade payables of Rs 196,333.561 million reflected in the audited annual report 2017 showed an increase of 3.387% from payables of previous year whereas LPS payable to E& P companies of Rs 33,791 million was reversed on the plea that the company was unable to collect LPS from KE / PSML which would be booked on receipt basis. Matter relating to collection of LPS from KE / PSML and recognition / payment of LPS payable to E&P companies needed to be expedited besides improving the receivable / payable management.

viii. The management of SSGC utilized funds amounting to Rs 5.180 million under CSR on education, health and environmental sector without signing any MOU whereas CSR policy of SSGC explicitly required signing of MoUs for utilization of CSR funds. This improper utilization of CSR fund needs to be justified. [DP No. 199/K]

ix. As per IAS 16, the management is required to verify the existence of the fixed assets as appearing in the Book of Accounts for the year from an independent Agency. However, physical verification of stores, stocks and assets of Rs 4,925.46 million was not carried out during the year by the management which indicated loose monitoring of physical movement and security of the stores, equipment and fixed assets Audit recommends to carry out physical verification of store, stock and fixed assets expeditiously. [DP Nos. 188/K, 216/K & 694]

### 2.6.3 Classified Summary of Audit Observations

Audit observations amounting to Rs 188,461.508 million were raised in this report during the current audit of SSGC. This amount also includes recoveries of Rs 77,336.489 million as pointed out by Audit. Summary of the audit observations classified by nature is as follows:

## 2.6.4 Overview of Audit Observations

(Rs in million)

| Sr. No. | Classification | Amount |
|---|---|---|
| 1 | Non production of record (1para) | - |
| 2 | Irregularities | - |
| A | HR / Employees related irregularities | 22,705.708 |
| B | UFG losses | 52,148.075 |
| C | Receivables Management | 43,911.717 |
| D | RLNG related Issues | 55,448.564 |
| E | Procurement related irregularities | 144.598 |
| F | Project Management | 1,799.522 |
| G | Regulatory Affairs | 12,144.912 |
| H | Corporate Social Responsibility | 27.640 |
| 3 | Others | 130.772 |

## 2.6.5 Compliance of PAC Directives

| Audit Year | Total No. of directives | Compliance reported | Compliance awaited | Breakup of compliance awaited | %age of compliance |
|---|---|---|---|---|---|
| 1992-93 | 10 | 9 | 1 | 54 | 90 |
| 1994-95 | 2 | 1 | 1 | 66 | 50 |
| 2000-01 | 5 | 4 | 1 | 173 | 80 |
| 2002-03 | 8 | 7 | 1 | 195 | 88 |
| 2003-04 | 8 | 6 | 2 | 160 &161 | 75 |
| 2006-07 | 13 | 10 | 3 | 158, 159 & 162 | 77 |
| 2007-08 | 11 | 10 | 1 | 126 | 91 |
| 2010-11 | 27 | 22 | 5 | 18.4.4.2, 18.4.4.4, 18.4.4.5, 18.4.4.6 & 18.4.4.12 | 81 |
| 2013-14 | 24 | 5 | 19 | 13.4.2.1, 13.4.2.2, 13.4.2.3, 13.4.2.4, 13.4.2.6, 13.4.2.7, 13.4.2.8, 13.4.2.9, 13.4.3, 13.4.4.2, 13.4.4.3, 13.4.4.4, 13.4.4.5, 13.4.4.6, 13.4.4.7, 13.4.4.8, 13.4.4.9, 13.4.4.10 & 13.4.4.11 | 21 |

| 2016-17 | 16 | 3 | 13 | 13.5.2.1, 13.5.2.2, 13.5.2.3, 13.5.4.1, 13.5.4.4, 13.5.4.5, 13.5.4.6, 13.5.4.7, 13.5.4.8, 13.5.5.12, 13.5.4.13 & 13.5.4.15, | 19 |
|---|---|---|---|---|---|
| **Total** | **124** | **77** | **47** | **-** | **62%** |

The overall compliance of PAC directives needs improvement.

## 2.6.6 Audit Paras

### *2.6.6.1 Non-production of record*

Section 14(2) of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 states that the officer in-charge of any office or department shall afford all facilities and provide record for audit. Further, the Public Accounts Committee directives issued vide OM No.F-10(1)/2000/2004-PAC dated Jun 03, 2004 require all PAOs of Ministries / Divisions to make available all information/record to Audit as and when required by them, otherwise disciplinary action will be initiated against person(s) responsible for the delay.

During audit of SSGCL, Karachi for the FY 2015-16, the management did not provide the record relating to expenditure incurred on Jhal Magsi Field Integration Pipeline Project amounting to Rs 228 million and record relating to CSR funds of Rs 20 million.

Audit is of the view that non- production of requisite record is not only a gross violation of law but chances of doubtful transactions and financial mismanagement could not be ruled out.

The matter was reported to the PAO / management in December 2017. In DAC meeting held on March 19, 2018, the management stated that only Rs 72 million were incurred on this project. DAC directed the management to carry out fact findings inquiry to ascertain the exact expenditure incurred and provide the record to Audit accordingly. No further progress was reported till finalization of the report.

Audit recommends to provide the complete record of the Jhal Magsi Project and CSR spending to Audit without any delay.

[DP Nos. 681 & 731]

## HR / Employee Related Irregularities

### *2.6.6.2 Unjustified increase in HR cost over the years - Rs 18,937.081 million*

As per Rule 17(h) of Natural Gas Tariff Rules " tariff should generally be determined taking into account a rate of return as provided in the license, a prudent operation and maintenance costs, depreciation, government levies and cost of natural gas". Further, according to Para 4.2.9 of OGRA's year book 2017-18, HR cost benchmark is determined by adopting the actual HR cost of previous year as base cost in the light of the parameters i.e. number of consumers, T&D network, sale volume and CPI of last year HR cost by giving weightage equal to 65%, 25%, 10% and 50% respectively to each parameter.

During the audit of SSGC Karachi for the FY 2018-19, it was observed that HR Cost Benchmark of SSGC was calculated on much higher side than that of SNGPL as compared below:

(Rs in million)

| **Head of Account** | **SNGPL** | | | **SSGC** | | |
|---|---|---|---|---|---|---|
| | ***ERR 2018-19** | **FRR 2017-18** | **FRR 2016-17** | **ERR 2018-19** | **FRR 2017-18** | **FRR 2016-17** |
| HR Cost determined | 15,206 | 14,961 | 14,022 | 14,156 93%* | 13,509 90%* | 12,431 88 % * |
| Number of Consumers (65%) | 6,336,589 | 6,036,589 | 5,645,885 | 3,070,048 48% ** | 2,,992,476 49% ** | 2,839,171 50% ** |
| Network in KMs (25%) | 137,052 | 128,889 | 118,728 | 50,618 36%*** | 50,419 39%*** | 49,494 41% *** |
| Sales (MMCF)NG (10%) | 447,155 | 442,557 | 443,649 | 365,223 82% **** | 371,774 83 %**** | 362,313 82%**** |
| Sales (MMCF)**RLNG** | 427,381 | 460,874 | 443,649 | 291,119 | 219,000 | 179,701 |

*% age of HR cost of SNGPL, **% of No of consumers of SNGPL, *** % age of Network of SNGPL, **** % age of Sales of SNGPL

By taking base cost of Rs 7,166 million for SSGC (SNGPL Rs 7,370 million), HR cost benchmark of SSGC was determined equal to 88% to 93% of HR cost benchmark of SNGPL despite the fact that number of consumers, network in KM and sales of NG of SSGC in different years 2016-17, 2017-18 &

2018-18 were 50% to 52%, 49% to 64% and 17% to 18% respectively less than those of SNGPL. Hence, HR cost benchmark on account of number of consumers and network in KMs was determined excessively equal to Rs 17,347 million as follows:

(Rs in million)

| Head of Account | HR Cost Benchmark Determined by SSGC | | | Excess HR Cost | | | | Remarks |
|---|---|---|---|---|---|---|---|---|
| | ERR 2018-19 | FRR 2017-18 | FRR 2016-17 | ERR 2018-19 | FRR 2017-18 | FRR 2016-17 | Total | |
| CPI (50%) | 283 | 308 | 236 | - | 66 | - | 66 | Incorrect CPI 5% instead of 3.92% |
| Number of Consumers | 8,431 | 8,218 | 7,550 | 4,215 | 4,209 | 3,775 | 12,199 | 50% to be reduced |
| Network in KMs | 3,024 | 3,013 | 2,902 | 1,482 | 1,476 | 1,422 | 4,380 | 49 % to be reduced |
| Sales NG | 1,504 | 1,354 | 1,270 | 256 | 230 | 216 | 702 | 17% to be reduced |
| **Total** | | | | **5,953** | **5,981** | **5,413** | **17,347** | |
| Sales RLNG | 291,119 | 219,000 | 179,701 | 421 | 501 | 667 | 1,590 | Inadmissible HR cost on RLNG sales |
| **Grand Total** | | | | **6,374** | **6,482** | **6,080** | **18,937** | |

Further, cost of RLNG was ring- fenced as per ECC decision. Hence, no HR cost on RLNG was admissible for charging to natural gas consumers, therefore, HR cost benchmark was determined in excess equal to Rs 1,590.081 million. Resultantly, HR cost to the tune of Rs 18,937.081 million was determined in excess.

Audit is of the view that HR cost benchmark of SSGC was determined proportionately in excess having half of number the consumers / network in KMs than that of SNGPL due to application of higher cost of services without giving any rationale both by SSGC and OGRA.

The matter was reported to the PAO in December, 2019.

The DAC in its meeting held on January 16, 2020 directed the Petroleum Division to look into the matter with a view to rationalize the HR Cost in comparison with SNGPL and other utility companies working under regulated regime in the country within three months. No further progress was reported till finalization of the report.

Audit recommends compliance of DAC directives besides taking up the matter with OGRA regarding allocation of HR cost to RLNG consumers proportionately.

[DP No. 813 ]

### *2.6.6.3 Unjustified expenditure on account of Employees' Retirement Benefits over and above HR Cost Benchmark - Rs 2,033 million*

According to Rule 17(h) of NGT Rules, "tariff should generally be determined taking into account a rate of return as provided in the license, a prudent operation and maintenance costs, depreciation, government levies and if applicable financial charges and cost of natural gas".

During audit of SSGC for the FY 2018-19, it was observed that as per HR cost benchmark determined by OGRA, expenses on account of pension, gratuity etc. on retirement of employees were to be met from HR cost benchmark on yearly basis. However, the management claimed extra amount of Rs 2,033 million on account of actuarial losses (employees retirement benefits) over and above HR cost benchmark. Due to increase in indexation rate for pension, the company recognised actuarial losses which were added in the HR cost in excess of HR cost benchmark during the FY 2016-17 to 2018-19. This resulted in additional T&D cost and higher gas prices which were passed on to the consumers. Hence, extra benefits were given to the employees over and above HR cost benchmark at the expense of end consumers.

Audit is of the view that an imprudent managerial decision resulted in un-justified expenditure of Rs 2,023 million.

The matter was reported to the PAO on September 26, 2019.

The DAC in its meeting held on January 16, 2020 directed the management to review the indexation policy linked with GOP pension rate announced annually in order to keep the pension benefits of employees within the cushion provided in the HR benchmark determined by OGRA. No further progress was reported till finalization of the report.

Audit recommends the management to take decisions in the light of the approved parameters / guidelines of OGRA and Federal Government besides implementing the decision of DAC.

[DP No. 818 ]

### *2.6.6.4 Irregular payment of bonus to executives and staff – Rs 1,604.575 million*

According to Finance Division's O.M. No. F.3 (5) R.12/80(R.14)Vol-II/2001-544 dated November 30, 2001, the payment of bonus to the employees is subject to concurrence of Finance Division. Further, the bonus should be paid to the employees on the basis of operational profit of the organization. According to Finance Division (Regulation Wing), O.M.No.F.3 (5) R.12/80(R-14)2002-154 dated March 18, 2002, MDs and Members of the BoD of autonomous/semi-autonomous bodies/public corporation/organizations are not entitled to receive bonuses.

During audit of SSGCL, Karachi for the period 2014-17, it was observed that the company awarded bonus of Rs 1,604.575 million to its employees including Managing Director on the basis of operating profit calculated on basis of 7% UFG, as per stay order granted by Sindh High Court, instead of 4.5%. Later, SHC dismissed SSGC petition as a result of which the stay order granted by the Court was dismissed. In consequence of this decision of the SHC, the profit on the basis of which the bonus was given, got converted into loss of Rs 36.7 billion. Hence, payment of bonus to employees including MD of the company in the absence of any profit was not only unjustified but also irregular in the light of directions of Finance Division.

Audit is of the view that poor managerial practices resulted in unjustified payment of bonus amounting Rs 1,605.575 million.

The matter was reported to the management in September 2017.

In DAC meeting held on May 24, 2019, the management stated that bonuses were paid to executives as per approved Executive Service Rules and bonus paid to staff was as per Clause 10 C of Industrial and Commercial

Employment Ordinance, 1968. The management further stated that out of total amount of Rs 833 million paid to the staff, Rs 608 million had already been recovered. DAC directed the management to provide the breakup of bonus paid during the period 2011-15 to executives and staff along with relevant rules, and get the recovery verified by Audit.

The matter was again discussed in DAC meeting held on January 16, 2020.The DAC directed the management to get the recovered amount verified from Audit within three days and expedite the recovery of balance amount. No further progress was reported till finalization of the report.

Audit recommends recovery of the amount of bonus paid besides fixing responsibility for award of unjustified / irregular bonus.

[DP No 610]

***2.6.6.5 Irregular payment of overtime allowance – Rs 68.208 million***

According to MD's office note No. 01/2017 dated March 1, 2017, it was held mandatory to restrict the monthly overtime payment upto Rs 50,000 per person per month.

During audit of SSGC for the year 2018-19, it was observed that an amount of Rs 68.208 million was paid on account of overtime which was in excess of prescribed limit resulting in irregular payment of overtime.

Audit is of the view that weak financial and managerial controls resulted in payment of overtime in excess of the prescribed limit.

The matter was reported to the management in November, 2019. The management in its reply stated that it was not mandatory to restrict the monthly overtime payment in excess of Rs 50,000 as per orders of MD. The reply of the management is not tenable because as MD's instructions, the payment of overtime in excess of Rs 50,000 was not be allowed except in case of extreme exigencies with prior approval of the competent authority.

The DAC in its meeting held on January 16, 2020 directed the management to provide complete justification on case to case basis with respect

to actual need versus activity performed. DAC further directed to restrict overtime payments within maximum capping i.e. Rs 50,000 per month. No further progress was reported till finalization of the report.

Audit recommends to ensure the overtime payments within maximum capping and fix responsibility for violating MD's directives.

[DP No. 599]

### *2.6.6.6 Deployment of excess executives in Medical Department - Rs 22.440 million*

According to SSGC Letter No. medical/GOP-Audit/2019 dated March 19, 2019 the approved strength for Medical Department of SSGC is 17 for the posts of Chief Manager, Manager and Deputy Manager.

During audit of SSGCL for the year 2017-18, it was observed that the management had deployed 26 employees (executives) in excess to their sanctioned strength in Medical department as under:

| Designation | Grade | Approved Strength | Current Strength | Difference (Surplus) |
|---|---|---|---|---|
| Chief Manager | VI | 02 | 04 | 02 |
| Manager | IV | 09 | 14 | 05 |
| DM/AM/ Executives | III/II/I | 06 | 25 | 19 |
| **Total:** | | **17** | **43** | **26** |

The approximate financial impact involved on account of monthly salary paid to the surplus officers came to Rs 1.870 million. The position clearly indicated that the management was completely oblivious to the approved strength, which caused extra financial burden on the company. Consequently, payments of Rs 22.440 million per annum made on account of salary and allowances were irregular.

Audit is of the view that negligence of the management resulted in excessive deployment in medical department.

The matter was reported to the management on April 9, 2019. The management in its reply dated. January 2, 2020 stated that surplus staff in Medical department which included 14 reinstated / absorbed temporary

assignees (casual labour) were absorbed through Sacked Employees (Reinstatement) Ordinance, 2009 and various court orders / settlements and carried separate treatment as per Board approval. The remaining staff had been appointed due to operational requirements. The reply is not tenable as the management should have restricted the strength as approved by the authority.

Audit recommends to justify the excessive deployments beyond sanctioned strength.

[DP No. 192/K ]

### *2.6.6.7 Irregular appointment of Chief Manager Corporate - Rs 3.9 million*

According to SSGC, Executive Staff Rules, Table-I regarding recruitment prerequisites for Chief Engineer/Chief Manager in grade-VI, the maximum age limit is 44 years, minimum qualification M.A, M.Sc., M.Com MPA, Law graduate and minimum experience is 14 years..

During audit of SSGC for the FY 2018-19, it was observed that the management invited candidates for the post of Chief Manager Corporate (G-VI) through advertisement dated November, 11 2018 with the requirement of minimum experience of 11 years. While finalizing the appointment, however, minimum experience was further reduced to 7 years in favour of the candidate. This resulted in irregular appointment resulting in irregular payment of salary of Rs 3.900 million.

Audit is of the view that poor HR management resulted in irregular appointment and payment of salary amounting to Rs 3.9 million.

The matter was reported to the management in September, 2019. The management in its reply stated that the position of Chief Manager (Corporate), had been advertised multiple times which reflected the scarcity of suitable resource. Furthermore, the incumbent met the minimum experience requirement of 11 years including 07 years' experience in legal matters, hence, 04 years relaxation was solicited from the Managing Director being the competent authority to grant such relaxation. The reply is not tenable as the candidate did not fulfil the prescribed advertised criteria of the post, hence and was not eligible for appointment.

Audit recommends to fix responsibility for appointment in violation of rules besides ensuring compliance of recruitment criteria in future appointments.

[DP No. 744 ]

### *2.6.6.8 Irregular enhancement of salary of General Manager – Rs 3.216 million*

According to Executive Staff Rules, executives are required to go through the formal process of performance assessment according to the terms of this policy. The Performance Evaluation process begins by June 15th each year to reach completion by July 31st. Performance Evaluation ratings are consolidated by the HR Department. The prevailing Performance Management System provides a yardstick which enables the management to measure both, strengths and weaknesses of the individual.

During audit of SSGC, Karachi for the FY 2018-19, it was observed that Mr. Fasih Azhar was appointed as General Manager, Human Resource in Grade-VIII on monthly salary of Rs 0.480 million and was confirmed on October 08, 2013. As per memorandum dated 27.05.2014, the management increased the basic salary of the employee @ 10% w.e.f. 1st May, 2014 on his written request dated May 27, 2014 that the management had promised to increase 10% salary on successful completion of 6 month's probationary period. The increase in salary in addition to annual increment, however, was irregular as it was in violation of above mention rules. Hence, the management extended undue favour to the executive in payment of Rs 3.216 million (Rs 48,000*67 months upto December, 2019).

Audit is of the view that due to weak financial controls, salary of officer was enhanced in violation of rules.

The matter was reported to the management in November, 2019. The management in its reply stated that it was explicitly mentioned in the offer letter that the package may be varied at the discretion of the company from time to time. The increase in salary was duly approved by the competent authority. The reply is not tenable as increase in salary was in addition to the annual increment granted in the relevant year's PMS which was not covered under the rule.

Audit recommends to recover the irregular increase of salary from the executive and to fix responsibility on the persons at fault.

[DP No. 693]

### *2.6.6.9 Loss due to irregular appointment of Project Director - Rs 33.288 million*

As per Cabinet Secretariat (Establishment Division) letter No. 06/02/2000, the appointments on contract basis in autonomous / semi-autonomous bodies, corporations, public sector companies etc. can be made through open advertisement in the leading and regional newspapers indicating prescribed academic and professional qualification, experience, age provincial / regional quotas etc.

During audit of SSGC, for the period 2014-17, it was observed that an advertisement was published in newspapers on December 19, 2014 calling for applications for the post of Project Director (Liquefied Gases). The required qualification was mentioned as engineering graduate whereas Master's degree holder was advertised to be preferred. Consequently, the management of SSGC appointed a candidate as Project Director (LGs) on contract basis for a period of two years w.e.f. April 07, 2015 at a consolidated compensation package of Rs 1.4 million per month along with other perquisites. However, he had qualification of B.E. in Civil Engineering and had no any specific qualification for the required post. Hence, the appointment of a civil engineer as Project Director (LGs) and payment of salary amounting to Rs 33.288 million was irregular.

Audit is of the view that poor HR management and nepotistic practices by the management in irregular appointment of Project Director.

The matter was reported to the management in September, 2017.

In the DAC meeting held on May 24, 2019, the management replied that the candidate possessed relevant qualification and experience required for the position of Project Director (LGs). DAC directed the management to get the above facts verified. No further progress was reported till finalization of the report.

Audit recommends implementation of directives of DAC.

[DP No 606 ]

*UFG Losses*

### *2.6.6.10 UFG losses due to negligence and poor performance - Rs 39,549.84 million*

According to Clause 21.1 of the License of SSGCL issued by OGRA vide No.NG-001/2003 dated 3rd September 2003. The licensee shall take all possible steps to keep the UFG within acceptable limits. The Authority for this purpose in consultation with Licensee and experts, shall fix target of UFG for each financial year. Authority may fix UFG target separately for each regulated activity.

During audit of SSGC for the for the FY 2018-19, it was observed that as per OGRA decision dated February 27, 2019 UFG losses were provisionally allowed @ 6.3 % for the FY 2018-2019, whereas the company UFG was recorded at 16.54% amounting to Rs 39,549.84 million during the FY 2018-19. Out of this, an amount of Rs 12,023.93 million on account of UFG losses were allowed to the company for passing on to consumers whereas remaining UFG losses of Rs 27,525.91 million were borne by the company.

Audit is of the view that due to ineffective implementation of UFG reduction plan and KMI(s) resulted in UFG losses of Rs 39,549.84 million.

The matter was reported to management in September, 2019. The management in its reply stated that controlling UFG losses in Balochistan and interior Sindh was always a challenge for SSGC due to various social and geographical reasons but SSGC took number of measures to control and reduce UFG. SSGC Police Station had also been established in Karachi to take actions against gas theft.

The DAC in its meeting held on January 16, 2020 directed the management to get the record regarding steps taken for reduction in UFG verified from Audit within three days. DAC further directed the management to make efforts for keeping UFG losses within allowable limit. No further progress was reported till finalization of the report.

Audit recommends to ensure effective implementation of UFG reduction mechanism and KMIs to minimize UFG losses besides implementation of DAC directives.

[DP Nos. 215/K, 590 & 603]

### *2.6.6.11 Non-filing of insurance claims against third party damages-Rs 193.583 million*

According to Section 118(I) of the Insurance Ordinance, 2000 read with SSGC's Fire and other Non-Life Insurance Policies, 2009, it shall be an implied term of every contract of insurance that where the entitled person has complied with all the requirements, the insurer shall make the payment within a period of 90 days from due date. Moreover, after expiry of notice time period, any such claim is time barred. Any claim below the deductible amount will not be entertained.

During audit of SSGCL, Karachi, for the FY 2018-2019, it was observed that company sustained gas losses of 338,362 MCF valuing Rs 193.583 million due to third party damages to its infrastructure. However, the management neither lodged insurance claims against these losses nor claimed any damages from the third parties. This resulted in loss of Rs 193.583 million to the company.

Audit is of the view that negligence of management resulted in non-lodging of insurance claim causing loss of Rs 193.583 million to the company.

The matter was reported to management in September, 2019. The management in its reply stated that gas losses of Rs 193.583 million was a sum of various incidents that occurred during the FY 2018-19. The claim value of these incidents were below the limit of deductible allowance i.e. Rs 20 million, therefore, claims were not considered by NICL for compensation. The reply is not tenable because damages should have been gotten indemnified from the third parties for damaging the SSGC pipeline.

Audit recommends fixing of responsibility on the person(s) at fault besides lodging the claims immediately against the concerned third parties.

[DP No. 602]

### *2.6.6.12 Loss on account of gas theft by consumers - Rs 971.92 million*

According to para 16 of Gas theft Control and Recovery Act, 2016, any person, being domestic consumer, who does tampering or abets in tampering with any gas meter, regulator, meter index or gas connection or any other related system and equipment, whether to commit theft of gas or for the purpose of unauthorized distribution or supply of gas shall be punished with imprisonment for a term which may extend to six months, or with fine which may be extend to one hundred thousand rupees, or with both.

During the audit of SSGC, Karachi, for the FY 2018-19, it was observed that the management detected 43,347 cases of gas theft amounting to Rs 971.92 million by registered consumers. However, the management neither registered any FIR nor recovery suits were filed in Gas Utility Courts against the pilferers. This resulted in loss of Rs 971.92 million to the company.

Audit is of the view that weak internal controls resulted in loss of Rs 971.92 million due to theft of gas.

The matter was reported to management in September, 2019. The management in its reply stated that 56 theft cases of Rs 24.386 million were accepted by the consumers, 168 theft cases of Rs 43.549 million were not accepted by the pilferers and 26 theft cases of Rs 14.688 million were stuck up in court. The management did not furnish reply for the remaining cases. The reply is not tenable because the theft cases should have been framed on the basis of evidences instead of acceptance of theft by the consumers. The management should have pursued the recovery through criminal as well as recovery proceedings under the law.

Audit recommends to initiate action for recovery of amount of gas theft besides pursuing the court cases vigorously.

[DP Nos.203/K, 205/K to 208/K, 690, 691 & 692 ]

### *2.6.6.13 Loss of gas due to delayed completion of rehabilitation schemes – Rs 638.553 million*

According to Clause 4 of Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for management of the Public Sector Company and for its procedures in financial and other matter.

During audit of SSGC, Karachi for the FY 2017-18, it was observed that the management envisaged replacement of pipelines in Karachi to control leakages of gas. However, the rehabilitation schemes were approved with inordinate delays and completed after lapse of three to seven years which caused loss of 367 MMCF of gas as detailed below.

(Rs in million)

| Rehabilitation Scheme (Karachi ) | Estimated Cost | Loss of Gas MMCF/ year | Amount of Loss | Delay in completion |
|---|---|---|---|---|
| Cattle Colony, Bin Qasim | 135.089 | 152.544 | 359.849 | 07 years |
| Sector 48-A & B, Korangi Township | 49.2 | 94.7 | 127.68 | 04 years |
| Sector 51 - C Korangi Township | 53.37 | 65.6 | 90.00 | 04 years |
| Sector 36-A Korangi | 19.15 | 27.084 | 9.126 | 03 years |
| Yousaf Goth Landhi Town, | 50.766 | 28.0 | 51.898 | 05 years |
| **Total** | | **367.928** | **638.553** | |

Audit is of the view that poor project management resulted in delay in completion of rehabilitation schemes causing loss of Rs 638.553 million on account of UFG losses.

The matter was reported to the management / PAO on May 31, 2019 but no reply was furnished till finalization of report.

Audit recommends to investigate inordinate delays in completion of rehabilitation schemes with a view to fix responsibility.

[DP Nos. 218, 219, 220,222 & 224/K]

### *2.6.6.14 Un-authenticated receipt of gas due to non-installation of check meters - Rs 10,794.179 million*

As per SOP, in order to authenticate the receipt of gas purchased from the E&P companies, Points of Delivery (PODs) are installed by the gas field producers; whereas, Check Meters are installed by Gas Utility Companies (i.e.

SSGCL ) near POD in order to confirm the volume of gas being received in the company. Billing is done on the basis of reading taken from POD meters.

During audit of SSGC for the year 2017-18, it was observed that check meters were not installed at Points of Delivery at Gambat South and Daru. The volume of gas supplied / invoiced by the producers at these two fields during the years 2016-17 and 2017-18 was as follows:

(Volume in MMCF)

| POD | 2016-17 | 2017-18 | Total |
|---|---|---|---|
| Gambat South | 12,764.52 | 15,439.70 | 28,204.22 |
| Daru | 1,423.32 | 1,983.82 | 3,407.14 |
| **Grand Total:** | **14,187.84** | **17,423.52** | **31,611.36** |

Thus, 31,611.36 MMCF of gas valuing Rs 10,794.179 million had been purchased without any check and balance system.

Audit is of the view that negligence of management in non-installation of check meters resulted in payment of Rs 10,794.179 million in unauthenticated receipt of gas.

The matter was reported to the management on April 12, 2019. The management in its reply dated December 27, 2019 stated that process of installation of check meters had been initiated. The check meter at Ghambat South would be install by December 31, 2019 and at Daru August 31, 2019. The reply is not tenable as there was no justification for receipt of unauthorized gas and target date fixed by management has also been lapsed but installation of check meter is awaited.

Audit recommends to explain **r**easons for not installing the check meters and ensure the installation of check meters without any further delay.

[DP No. 189/K]

**Receivables Management**

***2.6.6.15 Non-recovery of Equalization Cost from SNGPL – Rs 22,250 million***

According to Policy Guidelines dated June 18, 2003 under section 21 of the OGRA Ordinance, 2002, the cost of gas of SSGCL and SNGPL should be worked out on an overall weighted average basis to keep this major input cost

uniform for both the utilities. To implement this policy guideline, the two gas companies had signed an agreement, with the approval of OGRA, for making adjustments of the cost of gas paid to the producers on the basis of Weighted Average Cost of Gas (WACOG). The company having less cost of gas shall pay the differential amount on the basis of WACOG determined by OGRA.

During audit of SSGC for the FY 2018-19, it was observed that the management booked an amount of Rs 22,250 million on account of WACOG as receivable from SNGPL for the FY(s) 2016-17 and 2017-18. However, SSGC management failed to receive the equalization cost from SSGPL despite that fact that SNGPL was charging WACOG from the end consumers.

Audit is of the view that weak receivable management resulted in non-realization of Rs 22,250 million on account of WACOG.

The matter was reported to the management in December, 2019.

The DAC in its meeting held on January 16, 2020 directed the management to expedite the recovery of amount pointed out by Audit. No further progress was reported till finalization of the report.

Audit recommends to explain the reasons for non-recovery of outstanding amount besides recovering the same at the earliest.

[DP No. 814]

### *2.6.6.16 Non-recovery of outstanding amount from customers / defaulters Rs 20,012.96 million*

According to Para 4.4.1 read with Para 4.4.7 of Natural Gas Consumer Service Manual, 2011 R/w Para 9.04(b) of Procedure of SSGC, the supply is disconnected if the customer commits a default in the payment of two consecutive monthly bills or where outstanding amount is not secured by the Gas Security Deposit (GSD) or surpass the GSD amount. As per SSGC Recovery Policies / Procedures, disconnection gets due when age of debt exceed 90 days and amount is more than Rs 3,000.

During audit of SSGC for the year 2018-19, it was observed that 57,565 customers failed to pay gas bills and their connections were disconnected.

However, the management did not retain sufficient security deposits covering the gas charges of anticipated consumption. Resultantly, an amount of Rs 20,012.96 million stood as recoverable from these customers as on June 30, 2019.

Audit is of the view that due to weak receivable management and internal controls, an amount of Rs 20,012.96 million remained un-recovered.

The matter was reported to the management in August, 2019.

In DAC meeting held on January 16, 2020. The management stated the an amount of Rs 73.11 million had been recovered. However, the recovered amount could not verified from Audit. Management further explained that an amount of Rs 2,724.559 million was sub-judice due to court stay orders against tariff revision notified by OGRA from September 2015 to September 2019.

DAC directed the management to provide necessary documents in support of recovery of Rs 73.111 million and expedite the recovery of balance amount. DAC showed its concern over inaction on the part of management for vacation of stay orders against the amount of Rs 2,724.559 million and directed the management to pursue the court cases vigorously. No further progress was reported till finalization of the report.

Audit recommends to recover outstanding amount immediately besides pursuing court cases.

[Annex-13 ]

### *2.6.6.17 Non-recognition of LPS income receivable from SNGPL - Rs 779 million*

According to International Accounting Standards (IAS) 18, recognition of an item as revenue means that probable future economic benefit associated with the item will flow to the entity and its amount can be measured with reliability.

During audit of SSGC for the FY 2018-19, it was observed that management did not recognize / book the revenue of Rs 779 million on account of LPS receivable from SNGPL. The SNGPL management, however, had booked the same amount as LPS payable to SSGC in FRR for the FY 2016-17.

OGRA disallowed the claim of SNGPL on the ground that SSGC did not recognize such LPS income receivable from SNGPL. This showed that SSGC management did not take timely action for booking of income.

Audit is of the view that due to weak receivable management and financial controls, LPS income of Rs 779 million was not booked.

The matter was reported to the management in August, 2019. The management stated that from the FRR 2016-17 of SNGPL it was not clear that the LPS of Rs. 779 million pertained to RLNG. Moreover, it was also stated in the determination that LPS claim mostly pertained to public sector gas exploration entities. The reply is not tenable as the management itself was uncertain regarding LPS receivable from SNGPL, thus made no efforts to recover the same.

Audit recommends to explain non-booking of LPS income and to take necessary action for booking and recovery of LPS income against SNGPL.

[DP No. 817]

### *2.6.6.18 Short-recovery of sales tax – Rs 178.946 million*

According to Para 4.4.1 read with Para 4.4.7 of Natural Gas Consumer Service Manual 2011 R/w Para 9.04(b) of Procedure of SSGC, the supply is disconnected if the customer commits a default in the payment of two consecutive monthly bills or where outstanding amount is not secured by the Gas Security Deposit (GSD) or surpass the GSD amount. As per Section 3 of Sales Tax Act, 1990 there shall be charged, levied and paid sales tax at the rate of seventeen per cent of the value of a taxable supplies made by a registered person in the course or furtherance of any taxable activity carried on by him.

During audit of SSGC for the year 2018-19, it was observed that SSGC sold 27,667,330 MMBTU of gas to captive power, captive power-textile, general industries and textile. However, against the sales of this gas, sales tax amounting to Rs 1,103.258 million was recovered leaving an outstanding balance of Rs 178.946 million which was still recoverable by the management.

Audit is of the view that weak receivable management resulted in non-recovery of outstanding sales tax amounting to Rs 178.946 million.

The matter was reported to the management in September, 2019.

In DAC meeting held on January 16, 2020, the management stated that the amount pointed out was stuck up due to court stay orders obtained by the consumers against tariff revision notified by OGRA from September 2015 to September 2019. DAC showed its concern over inaction on the part of management for vacation of stay orders and directed the management to pursue the court cases for vacation of stay orders and early decision vigorously. No further progress was reported till finalization of the report.

Audit recommends fixing responsibility for inaction to get the stay orders vacated from the courts besides pursing court cases vigorously.

[DP No. 605]

### *2.6.6.19 Non-realization of withholding income tax, sales tax and excise duty from JJVL - Rs 497.11 million*

As per Section153(1) of Income Tax Ordinance, 2001 read with section 3 of Sales Tax Act, 1990, "Every prescribed person making a payment in full or part for the sale of goods; rendering of or providing of services; execution of a contract, other than a contract for the sale of goods or the rendering of or providing of services, shall, at the time of making the payment, deduct tax from the gross amount payable at the rate specified in Division III of Part III of the First Schedule.

During audit of SSGCL for the FY 2018-2019, it was observed that an amount of Rs 497.11 million on account of withholding income tax, sales tax and federal excise duty was outstanding against JJVL as on 30.06.2018. These were payable against the sale of LPG, NGL and fuel. However, no concrete efforts were made by SSGC to recover the amount and deposit the same in Government Treasury.

Audit is of the view that weak internal controls and poor financial management resulted in non-recovery of tax of Rs 497.11 million.

The matter was reported to the management in August, 2019. The management in its reply stated that as per agreement signed between SSGC and JJVL pursuant to the Supreme Court of Pakistan Order dated 4 December, 2018, the amount of excise duty was to be paid by JJVL to the Government treasury. For the amount of Rs 239 million pertaining to sales tax and income tax, SCP decision was still pending. Hence, it was agreed between the parties that JJVL would pay the SSGC consideration of 57% and also sales tax from September 2019 bills. However, JJVL communicated that sales tax payment for the period from January 2019 to August 2019 would be made in instalments.

The DAC in its meeting held on January 16, 2020 directed the management to take up the matter with JJVL for provision of the necessary documents in support of payment of excise duty. Further, the DAC directed to expedite the recovery of amount of sales tax and income tax. No further progress was reported till finalization of the report.

Audit recommends to expedite recovery of sales tax and income tax from JJVL and get stated position regarding Federal Excise Duty verified from Audit.

[DP Nos. 586, 588 & 592]

### *2.6.6.20 Non-recovery of consideration receivable from JJVL along with LPS - Rs 175.673 million*

According to Para 7.1 & 7.2 of agreement between SSGCL & JJVL in pursuance of order of Honorable Supreme Court of Pakistan, dated December 04, 2018, consideration for extraction in a calendar month shall be payable in fully by the end of the following calendar month. Any unpaid amount(s) in respect of consideration shall carry late payment surcharge at 2% per annum above the applicable monthly KIBOR. Any default of more than 2 months in payment of consideration in full in respect of a month shall entitle SSGCL to terminate the agreement without incurring any liability under a written notice to JJVL and M/s A.F. Ferguson & Co of 15 days to that effect.

During audit of SSGC for the FY 2018-19, it was observed that an amount of Rs 1,496.400 million (excluding sales tax) was receivable from JJVL on account of consideration w.e.f. January to June 2019 but JJVL only paid an

amount of Rs 1,320.726 million. This resulted in short payment of Rs 175.673 million along with late payment surcharge of 2% per annum plus monthly KIBOR.

Audit is of the view that due to weak internal controls an amount of Rs175.673 million along with LPS could not be recovered.

The matter was reported to the management in August, 2019. The management in its reply stated that the recovery of Rs 175.674 million was deposited on August 9, 2019 and verified by Audit.

The DAC in its meeting held on January 16, 2020 directed the management to get the recovered amount verified by Audit and expedite recovery of LPS. No further progress was reported till finalization of the report.

Audit recommended to expedite the recovery of LPS and get the recovered amount verified from Audit.

[DP No. 587]

### *2.6.6.21 Non-recovery of adjudged amount of Sales Tax - Rs 18.028 million*

As per SSGC recovery polices / procedure, the objective of setting up recovery department is to ensure recovery of dues from defaulting customers. Disconnection is a measure undertaken to disrupt / suspend gas supply to the premises of defaulting customers.

During audit of SSGC for the FY 2018-19, it was observed that SSGC did not timely withdraw zero rating facility against M/s Jubilee Spinning & Weaving Mills Ltd. Consequently, the GST for the period from May 16, 2009 to October, 2014 was not charged to the consumers. Upon SSGC's demand of GST, the consumer filed a petition against Federation of Pakistan and SSGC in the Sindh High Court regarding charging of past GST amount of Rs 18.748 million. The Honorable High Court vide order dated October 09, 2018 dismissed the case in favour of the company. However, the company could not recover the same from the consumer resulting in non-recovery of sales tax of Rs 18.028 million.

Audit is of the poor recovery management resulted in non-recovery of outstanding sales tax of Rs 18.028 million.

The matter was reported to the management in November, 2019.

The DAC in its meeting held on January 16, 2020 directed the management to pursue the recovery suits in respective Gas Utility Courts vigorously. No further progress was reported till finalization of the report.

Audit recommends to recover adjudged amount of sales tax besides improving receivable management to avoid such instances in the future.

[DP No. 738]

## RLNG related Issue

### *2.6.6.22 Non-recovery of terminal charges, cost of supply and LSA margin from SNGPL - Rs 55,448.564 million*

Under the provision of Clause 16 of Gas Transportation Agreement (GTA) between SSGCL and SNGPL "SNGPL shall pay each Tariff Invoice to SSGC by the 7th day following receipt of the Tariff Invoice. If the full amount of any undisputed Tariff Invoice is not paid when due, SNGPL shall pay a delayed payment surcharge to SSGC at the rate of 1 month KIBOR plus 2%."

During audit of SSGC for the FY 2017-18, it was observed that management failed to recover an amount of Rs 55,448.564 million from SNGPL on account of RLNG terminal charges, regasification charges, cost of supply and LNG Sale Agreement margin as on June 30, 2019. The detail is as below

(Rs in million)

| Particulars | Invoice Amount | Total Payments | Total Receivable |
|---|---|---|---|
| Terminal Charges | 52,750.077 | 19,625.138 | 33,124.939 |
| Cost of Supply | 22,344.801 | 1,880.439 | 20,464.362 |
| LSA Margin | 2,474.563 | 615.300 | 1,859.263 |
| **Total** | **77,569.441** | **22,120.877** | **55,448.564** |

Audit is of the view that slackness of the management resulted in non-recovery of claims amounting to Rs 55,448.564 million.

The matter was reported to the management in September, 2017 and April / December, 2019. The management stated that SNGPL had been making payments against the invoices raised by SSGC, however, due to short delivery of volumes (mmbtu), SNGPL had been holding payment against these invoices. SSGC management was aggressively pursuing this matter at the highest forum for its early resolution.

The DAC in its meeting held on January 16, 2020 directed the management to expedite the recovery of balance amount. No further progress was reported till finalization of the report.

Audit recommends to take up the matter with Petroleum Division for recovery of huge outstanding amount.

[DP Nos. 184,185, 186, 682/K & 816]

## Procurement related irregularities

### *2.6.6.23 Non-transfer of technology from M/s ITRON, France*

As per terms & conditions of License Agreement dated April 19, 1992 between SSGCL (Licensee) and Schlumberger Industries, France (Licensor) which was first acquired by Actaris SAS in October, 2001 and then by ITRON France in April, 2007. “The Licensee desires to acquire from the Licensor know-how, technical information and assistance to enable the licensee to manufacture, distribute and use gas meters”.

During audit of SSGCL for the year 2018-19, it was observed that License Agreement was executed between SSGCL and Schlumberger Industries, France in 1992 for getting technical know-how and assistance for manufacturing, distribution and use of gas meters. However, despite availing services of the licensor for a long period of 27 years, the management of SSGC did not initiate any step for self-reliance and obtain transfer of technology from M/s ITRON France as per agreement clause. The company was only assembling the meters and relying on the licensor for production after all these years.

Audit is of the view that due to slackness of the management, SSGC failed to achieve self-sufficiency in manufacture of meter despite lapse of considerable period of time.

The matter was reported to the management in November, 2019.The management stated that SSGC was continuously following up with M/s Itron the proposal regarding transfer of technology of measuring unit for 06 Million Euros with the royalty fee of 1.5 Euro per unit. The proposal was under consideration along with the 2nd option of complete localization of G-4 Gas Meter through open tendering. The reply is not tenable as despite lapse of 27 years, the management had not finalized whether it was opting for transfer of technology or localization of manufacturing of meters.

In DAC meeting held on January 16, 2020, the management explained that after expiry of license agreement with M/s ITRON on October 19, 2019, the management of SSGC had decided to localize the only remaining part i.e. measurement unit of G-4 Gas meter. DAC directed the management to ensure early self-reliance for manufacturing of gas meters.

Audit recommends to explain the reasons for delay in transfer of technology besides expediting the matter by materializing the aforesaid proposals.

[DP No. 596]

***2.6.6.24 Unjustified procurement of spares for Gas Generator - Rs 10.163 million***

According to Clause VII of Code of Corporate Governance, "the directors of listed companies shall exercise their powers and carry out their fiduciary duties with a sense of objective judgment and independence in the best interests of the listed company".

During audit of SSGC for the year 2018-19, it was observed that management procured spare parts worth Rs 10.163 million for 18 years old redundant Caterpillar Gas Generator (CAT 400KW) having book value of Rs 0.074 million. As per purchase requisition, total 46 items of spare parts were

required to be procured and expected duration of utilization of spares was only one year. However, no cost benefit analysis was prepared by the management. Moreover, as per purchase requisition many items were already available in the store stock. Hence, procurement of spares amounting to Rs 10.163 million for gas generator was unjustified.

Audit is of the view that due to weak internal controls, the management procured costly spares for assets having nominal book value.

The matter was reported to the management in November, 2019. The management stated that these engines were in operation and after conducting required maintenance, they would be having a useful service life of about 3-5 years. The additional items were ordered because the procurement lead time of these foreign items was sometimes very long and the company could not afford to keep any machine out of operation for long duration.

The DAC in its meeting held on January 16, 2020 directed the management to get the relevant record verified from Audit within three days. DAC further directed to provide the cost benefit analysis of procurement of spares of caterpillar generators during last five years. No further progress was reported till finalization of the report.

Audit recommends compliance of DAC directives.

[DP No. 696]

***2.6.6.25 Irregular acquisition of Medical Services without executing agreement - Rs 134.435 million***

Under the provision of Clause 2.4.1 of Medical Manual (prepared by M/s Fergusons), "An agreement shall be drafted by the requisitioning officials of the Company with the selected panel facility and the draft shall be reviewed by the legal function for their input on coverage of all the areas required.

During audit of SSGC for the FY 2017-18, it was observed that the Medical Services Department of the company had not prepared and signed any agreement with panel facilities i.e. hospitals, laboratories and clinics etc. engaged with the Company for providing health services to SSGCL employees.

On inquiring about the matter the CMO stated that instead of agreements, the Medical Department had developed and signed some MOUs with different health service providers. As per Internal Audit Report out of total 105 panel facilities only 09 hospitals and 01 laboratory were engaged in providing health services to the company employees through valid MOUs, whereas all the others were found without any MOU or agreement. The payments made to such panel facilities during the year 2015-16 were 134.435 million.

Audit held the view that poor procumbent management resulted in irregular acquisition of medical servicing for Rs 134.435 million.

The matter was reported to the management on April 2, 2019. The management in its reply stated that medical department was engaged with service providers on the basis of MoUs which were duly signed by both parties. Moreover, rates negotiation process was carried out through inter departmental enlistment and rate revision committee and subsequent approval from the competent authorities of both parties. Majority of agreements were signed with panel service providers and rest of the agreements were under process of signing at service provider's end. The reply is not tenable as no documentary evidence was provided by the management in support of its contention.

Audit recommends to fix responsibility for irregular acquisition of medical services besides finalizing the medical facility.

[DP No. 191/K ]

**Project Management**

***2.6.6.26 Unjustified cost overrun in 31 projects – Rs 697.802 million***

According to Rule 4(3) of Corporate Governance Rules, 2013, the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During the audit of SSGC, Karachi for the FYs 2011-17, it was observed that the management made excess expenditure on 31 projects against the

approved budget without proper justifications. This resulted in cost overrun to the tune of Rs 697.802 million in 31 projects.

Audit is of the view that poor project management resulted in cost overrun of Rs 697.802 million.

The matter was reported to the management in May 2018.

The DAC in its meeting held on July 25, 2019, directed the management to get the record verified from Audit along with aggregate cost of the projects within one week. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for poor project management resulting in cost overrun.

[DP No. 607]

### *2.6.6.27 Blockage of funds due to delay in completion of project – Rs 320 million*

As per Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013 the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of SSGCL, Karachi for the FY 2015-16, it was observed that a project for laying of 8″ x 85 km pipeline from field gate of Jhal Magsi to existing 12″Quetta Pipeline for supply of 15 MMCFD gas on equal sharing basis between SSGC and SNGPL was approved by the SSGC's Board of Directors in 2011. Consequently, SSGC invested around Rs 300 million for purchasing of material and Rs 20 million for CSR. However, the project, which was required to be completed in 2014, was yet to start and no execution work had taken place at project site. This resulted in blockage of funds amounting to Rs 320 million due to delay in start of project.

Audit is of the view that due to poor project management, the project was delayed causing blockage of funds amounting to Rs 320 million.

The matter was reported to management in December 2017.

The DAC, in its meeting held on March 19, 2018, directed the management to carry out fact finding inquiry within one month to ascertain whether there was any loss to the company and to share the report with Audit. No further progress was reported till finalization of the report.

Audit recommends compliance of DAC directive.

[DP Nos. 679 & 680 ]

### *2.6.6.28 Blockage of funds due to non-completion of rehabilitation scheme - Rs 23.072 million*

According to Clause 4 of Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for management of the Public Sector Company and for its procedures in financial and other matter.

During audit of SSGC, for the FY 2017-18, it was observed that the management initiated rehabilitation scheme involving replacement of 19.5 KM network in Yousaf Goth, Karachi at a capital cost of Rs 40.417 million. Consequently, the management made an expenditure of Rs 23.07 million on laying of pipelines. However, out of this amount Rs 1.831 million were paid to an irrelevant contractor without having assigned the said job. Consequently the work was stopped to resolve the discrepancy and the matter was under investigation by the management. As a result the scheme remained pending for three years and the pipeline that had already been buried underground remained unconnected / unutilized causing blockage of Rs 23.072 million.

Audit was of the view that poor project management resulted in blockage of funds amounting to Rs 23.072 million.

The matter was reported to the PAO on May 31, 2019 but no reply was furnished till finalization of the report.

Audit recommends the PAO to conduct inquiry to fix responsibility for delay in completion of rehabilitation scheme.

[DP No. 221 & 223/K]

### *2.6.6.29 Non-completion of schemes within stipulated time - Rs 685.928 million*

According to Rule 5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, the principal of probity and propriety entails that company's assets and resources are not used for private advantages and due economy is exercised so as to reduce wastage. The principal shall be adhered to, especially with respect to handling of public funds, assets, resources and confidential information by directors, executives and employees and claiming of expenses. Further, according to work orders issued to contractors, jobs were required to be completed within the stipulated time period.

During audit of SSGCL, it was observed that 18 schemes regarding capital works remained incomplete at regional office, Quetta despite lapse of considerable period of time. Approved cost of these schemes was Rs 1,048.608 million while an additional amount of Rs 685.928 million was also spent on these schemes. However, the management did not take any penal action against the contractors or company employees staff for delay in completion of projects.

Audit is of the view that poor project management resulted in non-completion of projects of Rs 685.928 million.

The matter was reported to the PAO in July 2019. No further progress was reported till finalization of the report.

Audit recommends to investigate the reason with a view to fix responsibility besides taking prompt actions to complete the schemes without any further delay.

[DP No. 217/K]

### *2.6.6.30 Wasteful expenditure on project material - Rs 72.720 million*

As per Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of SSGCL, Karachi for the FY 2015-16, it was observed that the company made an expenditure of Rs 72.720 million on purchase of material for gas supply from Jhal Magsi field. However, the work on the project could not be started due to law and order situation and the same was communicated to OGDCL, the operator of Jhal Magsi field. This resulted in wasteful expenditure of Rs 72.720 million.

Audit is of the view that poor project management resulted in wasteful expenditure amounting to Rs 72.720 million.

The matter was reported to the management in December 2017.

In DAC meeting held on March 19, 2018 the management informed that material worth Rs 71.00 million was utilized on other projects, therefore, no substantial material was left. DAC directed the management to carry out fact finding inquiry within one month to ascertain whether the procurement procedure was adopted strictly as per PPRA Rules, whether all the procured items were consumed and whether any loss was suffered by the company and to share the report with Audit. No further progress was reported till finalization of this report.

Audit recommends to compliance of DAC directives.

[DP No. 729 ]

**Regulatory Affairs**

***2.6.6.31 Excess determination of revenue requirement due to non-inclusion of transportation income in other operating income - Rs 313.912 million***

According to Para 1.4.4 & 1.4.5 of Tariff Regime for Regulated Natural Gas Sector in Pakistan, all indirectly generated revenues / income from an activity shall be shared between licensee and consumers as per Authority decision. The connection of an income as directly or indirectly inter-alia as operating / non-operating as a matter of principle shall be judged by the Authority based on the parameter relating to degree of relevancy with the regulated activity. Further, as per para 7.3.6( c ) of ERR for the FY 2018-19,

OGRA decided that Transportation Income be intended as 100 % operating income because the same arises in connection with the regulated activity.

During audit of SSGC for the FY 2017-18, it was observed that the management booked an amount of Rs 313.912 million against OGDCL and ENI as transportation income as per schedule of "Other Operating Income" given in petitions furnished to OGRA but the same was not included in other operating income in FRR 2016-17, ERR 2017-18 and ERR 2018-19. Hence, non-inclusion of the said amount in other operating income resulted in excess determination revenue requirement and was ultimately passed on to the consumers.

Audit is of the view that poor financial management resulted in non-inclusion of transportation income in other income.

The matter was reported to the management in July 2019. The management replied that that transportation income was not booked against OGDCL and ENI for the FY 2017-18, therefore, it was also not included in FRR 2016-17, ERR 2017-18 and ERR 2018-19. The reply is not tenable because the transportation charges were required to be booked in the light of agreements with the E&P companies and the same should have been offered for revenue requirement purpose.

Audit recommends to book transportation income in the light of agreements with E&P companies besides making corresponding adjustments in next FRR.

[DP No. 812]

### *2.6.6.32 Loss due to non-laying of gas network in localities within 5 KM radius of gas fields*

Ministry of Energy (Petroleum Division), Policy Wing conveyed vide letter No. NG(II)-15(27)/2018-Zamzama dated March 28, 2019, the decision of CCI taken in meeting dated November 24, 2017 and SCP order dated December 27, 2013, regarding provision of gas facility to the locality / villages which fall within the 5 Km radius of gas producing fields. CCI decided that "the expenditure involved in provision would be borne by the distribution companies.

The cost over and above criteria will be borne by gas utility companies which will be recovered through tariff adjustment".

During the audit of SSGC, Karachi for 2018-19 it was observed that management failed to implement the decision of Supreme Court of Pakistan and CCI regarding gasification of 444 localities within 5 Km radius of the gas fields in Sindh / Baluchistan. This not only deprived the locals of area of the gas facility but also encourage some locals to directly tap the gas pipelines or stop the laying of network in nearby localities of gas fields.

Audit is of the view that negligence of management resulted in non-implementation of decisions of SCP and CCI causing huge volume of gas pilferage.

The matter was reported to the management in July 2019. The management in its reply stated that the matter was sub-judice at Honourable Sindh High Court, Karachi in CP No.D-5841 of 2018. The company was ready to supply natural gas to the respective areas subject to release of above referred funds either by the Federal Government or Provincial Government. Further, in the light of the short decision of the Honourable Sindh High Court on 07.10.2019, SSGCL would prepare a 10 years plan for implementation of the schemes of 528 villages within 5 km radius of gas producing fields in Sindh. In this regard, matter had been taken up with the Secretary, MoE (Petroleum Division) GOP, Chairperson, OGRA; Chief Secretary Sindh, GoS and Secretary, Energy Department, GoS for implementation but their response was still awaited.

The DAC in its meeting held on January 16, 2020 referred the para to the Petroleum Division for looking into the matter for early solution. No further progress was reported till finalization of the report.

Audit recommends to expedite the implementation of the decisions of SCP and CCI by actively pursuing the matter with FG, GoS and OGRA.

[DP No. 815 ]

### *2.6.6.33 Non-pursuance of un-explained reduction in sales revenue in ERR 2018-19 – Rs 11,831 million*

According to Rule 17(h) of Natural Gas Tariff Rules and Section 8 (1 & 2) of the OGRA Ordinance, 2002, tariff should generally be determined taking into account a rate of return as provided in the license, a prudent operation and maintenance costs, depreciation, government levies and, if applicable, financial charges and cost of natural gas.

During audit of SSGC for the FY 2018-19, it was observed that the management filed review petition for ERR 2018-19 in which sales revenue of Rs 212,008 million was offered but OGRA reduced the sales revenue by Rs 11,831 million without giving any reasons in tariff calculation sheet. This un-explained reduction in sales revenue increased the revenue requirement to the tune of Rs 11,831 million. However, SSGC did not contest the unjustified reduction in sales revenue despite submission of affidavit to the effect that sales revenue of Rs 212,008 million in the petition was true and correct.

Audit is of the view that slackness of the management resulted in un-justified reduction in sales revenue by OGRA resulting in enhanced revenue requirement to tune of Rs 11,831 million.

The matter was reported to the management in July 2019. No reply was received till finalization of report.

Audit recommends to justify non-pursuance of reduction of sales revenue and to take up the matter with OGRA for necessary corrective action.

[DP Nos.819 ]

### *2.6.6.34 Delay in determination of final revenue requirements by OGRA resulting in loss of billions of rupees*

According to Rules 4 to 18 of the Oil & Gas Regulatory Authority Rules, 2002, the process of determination of Total Revenue Requirement of a gas company shall start from first day of December and finish by 17th June of the year when OGRA shall advise the Federal Government the prescribed price that shall apply to consumers for natural gas.

During the audit of SSGC for the FY 2018-19, it was observed that OGRA failed in determination of total revenue requirements for SSGCL for the FYs 2017-18 and 2018-19. This resulted in non-determination of prescribed price by OGRA and sales price of gas by the Government thus liability of the company on account of GDS payable to Government could not be determined.

Audit is of the view that weak financial management resulted in non-determination of total revenue requirements for collection of GDS.

The matter was reported to the management in August 2019. The management in its reply stated that the determination of revenue requirement fell within the purview of OGRA's / MoE. The reply is not tenable because revenue requirement for the FY 2017-18 of SNGPL had been finalized on January 15, 2019 by OGRA whereas that of SSGC was pending for want of annual accounts and non-finalization of UFG related issues with OGRA.

Audit recommended to pursue the matter of non-finalization of final revenue requirements with OGRA besides improving the process to avoid delay in future.

[DP No. 593]

**Corporate Social Responsibility**

***2.6.6.35 Non receipts of vouched account from NGOs - Rs 27.64 million***

According to 3.2(b) of Criteria of CSR Policy of SSGC, the Company will collaborate / associate with NGOs, NPOs, registered Community Based Organization (CBOs) who are functioning in a financially transparent manner, i.e. maintaining properly audited accounts and operating on a non-profit basis and having credibility and reputation for public service.

During audit of SSGC for the year 2017-18, it was observed that funds received under CSR amounting to Rs 27.64 million were utilized through various NGOs and institutes. However, the management did not obtain vouched accounts against these funds due to which transparency of expense could not be established.

Audit is of the view that in the absence of record of CSR fund utilization, the transparency of the expense could not be ascertained.

The matter was reported to the management April 16, 2019. The management in its reply dated December 30, 2019 stated that these 18 projects were rewarded to NGOs, NPOs, academic institutions etc. all having a credibility and reputation for public service, hence, no vouched account from the respective organization was received by the company. The reply of is not tenable as transparency in utilization of the CSR fund by NGOs, NPOs etc. could not be ascertained in the absence of vouched accounts.

Audit recommends to justify the irregular expenditure besides fixing responsibility on persons at fault.

[DP No. 201/K]

**Others**

### *2.6.6.36 Irregular payment of professional fee without getting prior approval from Law Division - Rs 119.949 million*

According to Clause(v) of policy / guidelines appointment of advocates of various department dated June 03, 2015 issued by Law, Justice and Human Rights Division, every government department or semi government or public corporate body shall seek concurrence of the Law, Justice and Human Rights Division for engagement of lawyer where professional fee exceeds Rs 300,000. Any failure in doing so will render the engagement of Advocate / Counsel etc., void and no ex-post facto approval will be allowed.

During audit of SSGCL for the FY 2018-19, it was observed that the management engaged legal counsel against professional fees exceeding Rs 300,000 without referring the cases to the Law, Justice & Human Rights Division for seeking concurrence. This resulted in irregular and unauthorized expenditure on account of professional fees of Rs 119.949 million.

Audit is of the view that due to weak internal controls prior approval from Law division for appointment of legal counsel was not obtained.

The matter was reported management in November, 2019. The management in its reply stated that irregular payment of professional fee without getting prior approval from Ministry of Law, Justice and Human Rights were miscalculated. The reply is not tenable as the above mentioned guidelines were applicable on every government department or semi government or public corporate body, hence, SSGC was obliged to follow the guidelines in appointment of legal advisor.

Audit recommends to justify the non-seeking of prior approval and fix responsibility on the person(s) at fault.

[DP No. 695]

### *2.6.6.37 Excess payment of auditor's fee in contravention of Supreme Court's decision - Rs 10.823 million*

Supreme Court's vide its Order dated December 29, 2018 in CMA No. 2419-L of 2018 in CP-5 of 2011 fixed auditor's fee @ Rs 3.250 million to be equally paid by SSGC & JJVL.

During audit of SSGC for the FY 2018-19, it was observed that the management paid Rs 12.447 million from January to July, 2019 to M/s A.F Ferguson & Co as auditor's fee. However, as per Judgment of Supreme Court a one time payment of Rs 1.625 million was required to be made by SSGC and JJVL each. Due to this, an excess amount of Rs 10.823 million was paid than the amount fixed by Supreme Court as Auditor's fee.

Audit is of view that weak internal controls resulted in excess payment of Rs 10.823 million as auditor's fee in contradiction of Supreme Court's decision.

The matter reported to the management on October 31, 2019. The management in its reply stated that the said signed agreement had been submitted in SCP which in its order dated 29 December 2018 fixed the auditor's fees at Rs 3.250 million to be equally paid by both sides. The reply of the management endorses audit stance that SSGC should have paid only its portion of total fee. However, SSGC paid Rs 10.823 million in excess as auditor's fee without any cogent reason.

Audit recommends to recover the excess payment from JJVL.

[DP No. 811]

## 2.7 Other Organizations

## 2.7.1 Introduction

This chapter includes comments on audited accounts, compliance of PAC directives and audit observations in respect of Government Holdings (Private) Limited (GHPL), Inter State Gas Systems (Private) Limited (ISGS), Lakhra Coal Development Company Limited (LCDC), Pakistan LNG Terminal Ltd (PLTL), Pakistan Mineral Development Corporation (Pvt.) Limited (PMDC) and Saindak Metals Limited (SML).

## 2.7.2 Comments on Audited Accounts

### (a) Government Holdings (Private) Limited

The working results of the company for the year 2017-18 as compared to previous years are as under:

(Rs in million)

| | **2017-18** | **% Inc/ (Dec)** | **2016-17** | **% Inc/ (Dec)** | **2015-16** |
|---|---|---|---|---|---|
| **Sales Net** | 61,915.84 | 28.85 | 48,052.18 | 3.16 | 46,579.00 |
| **Cost of Sales** | | | | | |
| Royalty | 6,925.81 | 34.87 | 5,135.22 | 2.77 | 4,996.68 |
| Operating exp & others | 12,052.29 | (4.76) | 12,654.35 | (5.68) | 13,416.42 |
| | 18,978.10 | 6.68 | 7,789.58 | (3.39) | 18,413.10 |
| **Gross Profit** | **42,937.74** | **41.88** | **30,262.60** | **7.44** | **28,165.90** |
| Other income | 2,321.61 | (35.19) | 3,582.18 | 51.87 | 2,358.79 |
| Exploration and prospecting expenditure | 1,087.25 | (0.16) | 1,089.04 | 79.18 | 607.81 |
| General and administrative expenses | 262.02 | (14.40) | 306.10 | 59.06 | 192.44 |
| Other expenses | 1,570.14 | 559.29 | 238.16 | (55.02) | 529.48 |
| Operating Profit | 42,339.93 | 31.44 | 32,211.48 | 10.33 | 29,194.95 |
| Finance Cost | 238.31 | 3,119.52 | 7.40 | (81.43) | 39.86 |
| Profit before Taxation | **42,101.62** | **30.73** | **32,204.07** | **10.46** | **29,155.10** |
| Taxation | 14,557.78 | 22.28 | 11,905.56 | 6.60 | 11,168.58 |
| Profit after taxation | **27,543.84** | **35.69** | **20,298.51** | **12.85** | **17,986.52** |

*(source: Annual Audited Accounts)*

i. Legal and professional charges increased by 562.99% i.e. 18.696 million in 2017-18 from Rs 2.819 million in 2016-17, which was substantial increase and needs justification.

ii. Out of trade debts of Rs 58,041.75 million, Rs 46,011.93 million represents the amount overdue from oil and gas customers. Cogent efforts need to be made for recovery of same as long outstanding dues may lead to turning them into bad debts.

iii. Financing cost of the company increased from Rs 7.40 million in 2016-2017 to Rs 238.31 million in 2017-2018 registering an increase of 3,120%. The company needs to justify exorbitant increase in financing cost.

**(b) Inter State Gas Systems (Private) Limited**

The working results of the Company for the year 2018-19 as compared to previous years are as under:

(Rs in million)

| | 2018-19 | % Inc/(Dec) | 2017-18 | % Inc/(Dec) | 2016-17 |
|---|---|---|---|---|---|
| Revenue | - | - | - | - | - |
| Administrative Expenses | (205.46) | 31.13 | (156.69) | (2.41) | (160.56) |
| Operating profit/(loss) | (205.46) | 31.13 | (156.69) | (2.41) | (160.56) |
| Other income | 35.91 | - | - | (100) | 5.775 |
| Financial Cost | 70.24 | 44.88 | 42.48 | - | - |
| Impairment loss on capital work in progress | 216.83 | 227.88 | 66.13 | - | - |
| Share of loss from associate- net of taxation | 40.32 | (70.26) | 135.59 | - | - |
| Net (loss) profit before taxation | (496.94) | 20.90 | (411.03) | (36.03) | (642.57) |

*(Source: Annual Audited Accounts)*

i. The financial statements of the company showed that company did not generate any revenue in 2017-18. Management is required to provide detailed justification in this regard.

ii. Administrative expenses increased to Rs 205.46 million during the 2018-19 against Rs 156.69 million in 2017-18 despite not earning any revenue which needs to be explained.

iii. The current liabilities at the close of the year on June 30, 2019 stood at Rs 372 million against current assets of Rs 296 million which showed poor

liquidity position of the company. Efforts are needed to be made for improving the liquidity position.

iv. An amount of Rs 216.83 million was impairment loss in work in progress due to drop of Machike Tarujubba Oil Pipeline Project (MTOPP) which requires detailed justification along with detail of expenditure incurred thereon.

**(c) Lakhra Coal Development Company, Limited**

The working results of the company for the year 2017-18 as compared with those of the previous years are as under:

(Rs in million)

| Description | 2017-18 | % Inc/ (Dec) | 2016-17 | % Inc/ (Dec) | 2015-16 |
|---|---|---|---|---|---|
| Sales | 22.26 | (95.54) | 499.56 | (17.91) | 608.55 |
| Cost of Sales | 71.18 | (81.81) | 391.27 | 1.21 | 386.61 |
| **Gross Profit** | **(48.93)** | **(145.18)** | **108.29** | **(51.21)** | **221.94** |
| Other oper. income | 108.23 | 51.22 | 71.57 | (19.87) | 89.32 |
| Other income | 16.43 | 327.98 | 3.84 | (65.01) | 10.97 |
| Admn. Expenses | 62.03 | 5.81 | 58.62 | 8.42 | 54.07 |
| Selling Expenses | 3.95 | (95.20) | 82.23 | (20.18) | 103.02 |
| Operating Profit | (6.67) | (117.11) | 39.00 | (76.38) | 165.14 |
| Finance Charges | 0.04 | (97.91) | 2.11 | 927.35 | 0.205 |
| Workers profit participation fund | 0.49 | 100 | 0.00 | (100.00) | 8.24 |
| Profit before taxation | 9.23 | (106.93) | (133.13) | (184.96) | 156.69 |
| Income tax expense | 4.63 | (24.59) | 6.14 | (87.87) | 50.61 |
| **Profit after taxation** | **4.60** | **(103.30)** | **(139.26)** | **(231.29)** | **106.07** |

*(Source: Annual Audited Accounts)*

i. Sales of the company decreased by 95.54% i.e. to Rs 22.26 million in FY 2017-18 from Rs 499.56 million in FY 2016-17. The reason behind the substantive shortfall of sales was the shutdown of LPGCL power plant (note 26). The company needs to address its marketing strategy in order to enhance sales

ii. Cost of sales was 319.82% of sales in FY 2017-18 as compared to 78.32% of sales in FY 2016-17. The current scenario depicted that revenue is not enough to absorb its fixed overhead. The company should maintain production and sales of coal at a level to absorb fixed cost of sales.

iii. The Board expenses increased from Rs 2.825 million in FY 2016-17 to Rs 4.727 million in FY 2017-18 showing an increase of 67.29%. Extraordinary increase in Board expenses needs justification.

**(d) Pakistan LNG Terminal Ltd (PLTL)**

The working results of the Company for the year i.e. 2017-18 are tabulated below:

| Particulars | 2017-18 | % Inc / (Dec) | 2016-17 |
|---|---|---|---|
| Revenue | 5,067,002,912 | - | - |
| Cost of services | (4,892,556,464) | - | - |
| **Gross Profit** | **174,446,448** | - | - |
| Administrative Expenses | 191,547,637 | 77% | 108,091,384 |
| Other Income | 2,713,566 | 27% | 2,443,852 |
| Exchange Gain | 6,830,731 | - | - |
| Finance Cost | 11,609,597 | - | - |
| Loss Before Tax | 19,166,489 | (82%) | 105,647,532 |
| Taxation | 63,337,536 | - | - |
| **Loss after tax** | **82,504,025** | | **105,647,532** |

*(Source: Annual Audited Accounts)*

All the operating expenses were financed by M/s GHPL, being the holding company on behalf of GoP.

i. The company incurred loss of Rs 82.89 million during the FY 2017-18 compared to Rs 105.65 million in FY 2016-2017. The continuous loss from operating activities is due to not operating at maximum capacity of 600 MMSCFD which needs to be improved.

ii. The company lodged a case for imposition of LD charges of US$ 50.58 million on M/s Pakistan Gas Port Consortium Limited (PGPCL). On refusal of PGPCL to make the payment, the case was referred for dispute

resolution but was not finalized up till 31st May, 2019. The updates may be made available to audit with justification for non-finalization of the same.

**(e) Pakistan Mineral Development Corporation Private Limited**

(Rs in million)

| | 2018-19 | % Inc/ (Dec) | 2017-18 | % Inc/ (Dec) | 2016-17 |
|---|---|---|---|---|---|
| Sales | 2,432.62 | (6.70) | 2,607.37 | 6.38 | 2,450.98 |
| Cost of sales | 1,763.15 | (3.48) | 1,826.79 | 11.32 | 1,641.06 |
| **Gross profit** | **669.47** | (14.24) | **780.59** | **(3.62)** | **809.92** |
| **Operating Expenses** | | | | | |
| Admn. Expenses | 457.58 | 5.61 | 433..27 | 4.89 | 413.07 |
| Distribution expenses | 146.88 | 5.87 | 138.73 | 4.79 | 132.39 |
| Total expenses | 604.46 | 5.67 | 572.02 | 4.87 | 545.46 |
| **Operating profit** | **65.01** | (68.83) | **208.57** | **(21.14)** | **264.47** |
| Other income | 404.47 | 117.00 | 186.39 | 17.49 | 158.65 |
| Share of Profit from Associates | 1.23 | - | - | - | - |
| WPPF expense | 20.59 | 4.25 | 19.75 | (6.66) | 21.16 |
| Other expenses including provision for embezzlement of funds | 58.88 | - | - | - | - |
| **Net profit before tax** | **391.23** | 4.27 | **375.21** | (6.65) | **401.96** |
| Provision for Taxation | 97.15 | 53.77 | 63.18 | **(39.86)** | 105.05 |
| **Net profit after Taxation** | **294.07** | (5.76) | **312.03** | 5.09 | **296.92** |

*(Source: Annual Audited Accounts)*

i. Sales of the corporation decreased by 6.70% from Rs 2,607.37 million in 2017-18 to Rs 2,432.62 million in 2018-19, whereas cost of sales decreased by 3.48%. Resultantly, gross profit of the company decreased by 14.24% in 2018-19 as compared to the previous year. Management needs to devise a strategy for effective utilization of its resources and for enhancement of its sales.

ii. Operating profit of the company was continuously declining for the last two years. During the year 2016-17, operating profit was Rs 264.47 million which declined to Rs 208.57 in 2017-18 and to Rs 65.01 in 2018-19 which showed that operating expenses increased immensely. This trend revealed that proper control was not exercised to overcome the operating expenses. Increase in the expenses and decrease in operating

profit needs to be explained.

iii. Other expenses (Note 28) includes provision for an amount of Rs 58.885 million which were charged to profit and loss accounts on account of embezzlement of funds at Lakhra project. Neither any details for this provision nor any justification was given which needs to be explained.

iv. During the year 2018-19, value of stock in trade at Sor-Range increased to Rs 86.082 million against Rs 6.928 million in 2017-18. Effective measures are required to be taken for early sales of stock so that the loss due to deterioration of stock could be avoided.

v. Accumulated losses from salt mines Jatta-Bahadar Khel rose to Rs. 35.941 million. The cost of sales for the project showed that the project was difficult to sustain as going concern. The steps being taken for its improvement need to be shared with Audit.

vi. PMDC made an investment of Rs 1.225 million in Sarhad Mineral (Pvt) Ltd which had negative net worth of Rs 8.644 million as on June 30, 2019. The management is required to explain reasons for imprudent investment in a sick company.

vii. The Khewra Mines, despite being Asia's largest and world's second largest mine, incurred operating loss of Rs 57.486 million in financial year 2018-19 which needs to be justified.

**(f) Saindak Metals Limited**

The working results of the Company for the year 2018-19 as compared with those of the previous years are as follows:

(Rs in million)

| | **2018-19** | **% Inc / (Dec)** | **2017-18** | **% Inc / (Dec)** | **2016-17** |
|---|---|---|---|---|---|
| Income | 1,194.54 | 50.80 | 792.138 | (33.77) | 1,196.06 |
| Depreciation, Administrative & other Expenses | 540.31 | 7.84 | 501.004 | (21.75) | 640.259 |
| Operating profit / (loss) | 654.24 | 124.72 | 291.134 | (47.62) | 555.802 |

| | | | | | |
|---|---|---|---|---|---|
| Financial charges | 0.06 | 56.36 | 0.037 | 2.78 | 0.036 |
| Other income | 469.46 | 50.70 | 311.525 | (5.02) | 327.996 |
| Profit / (loss) before Taxation | 1,123.64 | 86.46 | **602.622** | **(31.81)** | **883.763** |
| Income tax expenses | 391.29 | 76.01 | 222.313 | (30.84) | 321.437 |
| Profit for the year | 732.35 | 92.57 | **380.308** | **(32.37)** | **562.325** |
| **Accumulated Profit / (Losses)** | **6,964.78** | **(9.51)** | **(7,697.13)** | **(4.44)** | **(8,054.70)** |

*(Source: Annual Audited Accounts)*

i. Company's profit increased by 92% from Rs 732.35 million in 2018-19 from Rs 380.308 million in 2017-18. This increase was due to increase in dollar to rupees conversion rate. However, it required further improvement as net profit of the company in 2011-12 was Rs 6,444.60 million.

ii. The administrative expenses increased from Rs 0.18 million in 2017-18 to Rs 0.36 million in 2018-19 showing an increase of 104.28%. The extraordinary increase in expenses needs justification.

iii. The BoD expenses increased by 66.84% in 2018-19 as compared to 2017-18 as it increased to Rs 3.09 million from Rs 1.85 million.

iv. The trade debts of the company increased by 42.60% as they were Rs 1,132.669 million in 2018-19 as compared to Rs 794.304 million in 2017-18. Such sharp increase in trade debts shows weak credit policy of the management and needs justification.

v. The management placed an amount of Rs 5,263.20 million in 2018-19 and Rs 4,730.26 million in 2017-18 in short term investments on interest rates of 4.95% to 13.1%. The surplus should have been used for long term investments to earn high profits. The imprudent investment policy needed justification.

vi. The company had a negative equity of Rs 6,983 million in 2018-19 compared to Rs 7,697 million in 2017-18. The company's current liabilities exceeded its current assets by Rs 9,896 million compared to Rs 10,961 million in 2017-18. The company needs to take steps to improve its equity position.

vii. The company's exploration license expired on April, 2014 and company applied for renewal of its license but the same was pending. Due to aforementioned reasons, the company's ability to continue as a going concern remains doubtful. The future plans for improvement in its operation need to be explained with full facts and figures.

## 2.7.3 Classified Summary of Audit Observations

Audit observations amounting to Rs 2,990.918 million were raised in this report during the current audit in respect of these organizations. This amount also includes recoveries of Rs 68.694 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

## 2.7.4 Overview of Audit Observations

(Rs in million)

| Sr. No. | Classification | Amount |
|---|---|---|
| 1 | Non production of record (1 para) | - |
| 2 | Irregularities | - |
| A | HR / Employees related irregularities | 113.772 |
| B | Procurement related irregularities | 2,768.690 |
| C | Contract Management | 71.374 |
| D | Defective Financial Management | 16.875 |
| 3 | Others | 20.207 |

## 2.7.5 Compliance with PAC Directives

| Name of entity | Audit Year | Total Paras | Full compli-ance | Partial compli-ance | Pending Paras | Percentage of compliance |
|---|---|---|---|---|---|---|
| Government Holdings (Private) Limited | 2008-09 | 04 | 03 | 01 | 200.5 | 75 |
| | 2009-10 | 06 | 03 | 03 | 205.3,206,207 | 50 |
| | 2010-11 | 03 | - | 03 | 18.8.4.1, 18.8.4.2, 18.8.4.3 | - |
| | 2013-14 | 08 | 03 | 05 | 13.5.2.4, 13.5.2.2, 13.5.2.5, | 38 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | 13.5.2.6, 13.5.3 | |
| | **Total** | **21** | **09** | **12** | | **43** |
| Inter State Gas Systems (Private) Limited | 2013-14 | 10 | 02 | 08 | 13.10.2 &13.10.2.1, 13.10.2.2, 13.10.4.1, 13.10.4.2, 13.10.4.3, 13.10.4.4,13.10.4.5 | 20 |
| | 2016-17 | 04 | 02 | 02 | 13.10.1&13.10.2,13.10.3, | 50 |
| | **Total** | **14** | **4** | **10** | | **29%** |
| Lakhra Coal Development Company Limited | 2013-14 | 6 | 2 | 4 | 13.9.2.1, 13.9.2.2, 13.9.4.1 & 13.9.4.2 | 33 |
| | 2016-17 | 4 | 1 | 3 | 13.1.4.3, 13.1.4.2 & 13.4.4.5 | 25 |
| | **Total** | **10** | **3** | **7** | **-** | **30%** |
| Pakistan Mineral Development Corporation (Pvt.) Limited | 1993-94 | 44 | 42 | 02 | 53,71 | 95 |
| | 1995-96 | 39 | 37 | 02 | 62,64 | 95 |
| | 1999-00 | 20 | 19 | 01 | 210 | 95 |
| | 2005-06 | 05 | 04 | 01 | 205 | 80 |
| | 2009-10 | 02 | 02 | 0 | | 100 |
| | 2013-14 | 07 | 02 | 05 | 13.8.2&13.8.2.1, 13.8.2.3, 13.8.2.4, 13.8.2.5, | 29 |
| | 2016-17 | 11 | 7 | 4 | 13.9.1&13.9.2,13.9.2.4,13.9.2.7, 13.9.3 | 64 |
| | **Total** | **128** | **113** | **15** | | **88%** |
| Saindak Metals Limited | 1986-87 | 2 | 0 | 2 | 290 & 291 | - |
| | 1994-95 | 2 | 1 | 1 | 44 | 50 |
| | 1995-96 | 7 | 4 | 2 | 35 & 40 | 57 |
| | 1996-97 | 5 | 4 | 1 | 30 | 80 |
| | 1999-00 | 5 | 4 | 1 | 164 | 80 |
| | 2003-04 | 2 | 1 | 1 | 157 | 50 |

| | 2005-06 | 7 | 6 | 1 | 185.5 | 86 |
|---|---|---|---|---|---|---|
| | 2013-14 | 9 | 5 | 4 | 13.3.2.5, 13.3.2.6, 13.3.2.7 & 13.3.3 | 56 |
| | **Total** | **39** | **25** | **14** | **-** | **64%** |

The overall compliance of PAC directives needs improvement.

## 2.7.6 Audit Paras

### *2.7.6.1 Non production of record*

According to Section 14(2) and (3) of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001, the officer-in-charge of any office or Department was required to afford all facilities and provide record for audit inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition. Any person or authority hindering the auditorial functions of the Auditor General regarding inspection of accounts was subject to disciplinary action under relevant Efficiency and Discipline Rules.

During audit of PLL for the FY 2017-18, the management did not provide minutes of meetings of Board of Directors, HR, Audit and Procurement Committee Meetings. On audit's demand for the provision of the record, the Company Secretary replied that as per the direction of the BoD, copies of the minutes of BOD as well as HR, Audit and Procurement Committee meetings could not be provided to audit.

Audit is of the view that refusal of the management to provide requisite record to audit was violation of AGP ordinance.

The matter was reported to the PAO on September 25, 2019. The management in its reply stated that PLL was taking up the matter of regarding provision of minutes to Audit in the next Board meeting and decision of the same would be communicated to Audit accordingly.

The DAC in its meeting held on November 26, 2019 directed the management to place the matter before the BoD for reviewing the earlier decision in the light of audit observation. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for violation of AGP ordinance besides provision of requisite record.

[DP No. 324-PLL]

**HR / Employees related irregularities**

***2.7.6.2 Irregular revision of pay, allowances and privileges of Executive / Supervisory Staff - Rs 106.115 million***

According to Finance Division OM No. F.4(3)R-4/2011 dated August 19, 2015, it is binding upon all the administrative Ministries/Divisions of semi-autonomous, autonomous bodies/corporations to ensure that any changes in the pay, allowances and privileges of executive/supervisory staff of semi-autonomous, autonomous bodies/corporations working under their administrative control, are processed in accordance with the Finance division's OM No. F.1(I) IMP/94 dated June 26, 1999.

(i) During audit of ISGS for the FY 2017-18, it was observed that the BoD of the company revised pay, allowances and privileges of executive / supervisory staff of ISGS without approval from Finance Division. This revision was in violation of above mentioned instructions of the Finance Division, hence, irregular.

Audit is of the view that poor managerial practices resulted in irregular revision of pay, allowances and privileges of Executive / Supervisory Staff.

The matter was reported to the PAO in November, 2019. The management in its reply stated that instructions did not apply to the company. The reply is not tenable as any changes in pay and perks needed concurrence of Finance Division to come into effect. No further progress was reported till finalization of the report.

Audit recommends to forward that case for revision of salaries and perquisites to the Finance Division for regularization.

(ii) During audit of PMDC for the FY 2017-18, it was observed that the Board of Directors of PMDC approved the revision of basic pay scales and allowances of PMDC officers. The monetary impact of increase in salary for the financial year 2015-16, 2016-17 & 2017-18 came to Rs 106.115 million. However, concurrence of Finance Division as resulted under the policy was not obtained. Thus rendering the revision and subsequently payment of salaries and allowances as irregular.

Audit is of view that poor internal controls resulted in irregular revision and subsequent payment of salaries and allowances amounting to Rs 106.115 million.

The matter was reported to the PAO in November, 2019. The management in its reply dated August 01, 2019 stated that PMDC Board in its 112th meeting held on 29th October 2005 and later confirmed in the 113th meeting held on 8th July, 2006 decided that PMDC was not obtaining any funds from the Government, hence, the Board's approval for revision of pay and allowances of its employees would be sufficient for implementation without any reference to the Finance Division (Regulation Wing). The reply is not tenable because concurrence of Finance Division regarding revision/increase of basic pay scales and allowances was necessary regardless of source of fund. No further progress was reported till finalization of the report.

Audit recommends that revision of basic pay scales and allowances may be regularized from Finance Division.

[DP No. 652 & 649-Isd]

***2.7.6.3 Irregular appointment of Managing Director / Chief Internal Auditor***

(i) According to Rule 5(2) of the Public Sector Companies (Corporate Governance) Rules, 2013 "the Board shall evaluate the candidates based on the fit and proper criteria and the guidelines specified by the Commission for appointment to the position of the chief executive and recommend at least three

candidates to the Government for its concurrence for appointment of one of them as chief executive of the Public Sector Company, except where the chief executive is nominated by the Government. On receiving concurrence or nomination of the Government, as the case may be, the Board shall appoint the chief executive in accordance with the provisions of the Ordinance.

During audit of PLL for the FY 2017-18, it was observed that the Secretary, Ministry of Petroleum & Natural Resources, on recommendations of nomination committee of PLL, sent a summary containing the names of candidates short-listed for the post of MD / CEO of PLL. The list included a candidate which was working in the PM office at that time. The PM office raised observations on the nomination of the said office on the ground that the candidate did not apply for the post through proper channel. The PM office asked the Ministry to provide entire list of candidates and to hold an inquiry to identify the person at fault. However, instead of taking action as directed by the PM, the PLL Board, in its 5th meeting selected the same officer as Chief Operating Officer, a post created specifically to accommodate the candidate. Later, the name of the officer was again recommended for the post of MD/CEO upon which the Establishment Division again raised observations. On the observations of the Establishment Division, the Ministry directed the Chairman, BoD of PLL to provide a fresh penal of candidates fulfilling the requisite criteria. However, on the direction of the PM office, the Ministry placed a summary before the Federal Cabinet which appointed the said candidate as MD PLL.

Audit was of the view that the management of PLL demonstrated nepotism by flouting the rules and directions of the Prime Minister for appointment of a specific candidate.

The matter was reported to the PAO on September 25, 2019. The management replied that the matter would be presented to the BoD and response would be submitted to Audit accordingly.

The DAC in its meeting held on November 26, 2019 directed the Petroleum Division to hold a comprehensive inquiry in the light of directives of PM House and audit observation. No further progress was reported till finalization of the report.

Audit recommends compliance of the DAC directives.

[DP No. 320-PLL]

(ii) According to Rule 22(1)(2) of Public Sector Companies (Cooperate Governance) Rules, 2013**,** no person shall be appointed as the Chief Internal Auditor of a Public Sector Company unless he has five years of relevant audit experience and is a member of a recognized body of professional accountants; or certified internal auditor or certified fraud examiner; or certified internal control auditor; or person holding a master degree in finance from a university recognized by the Higher Education Commission.

During audit of PMDC for the FY 2017-18, it was observed that PMDC, Board of Directors appointed a commerce graduate as Chief Internal Auditor without observing the qualification requirement for the appointment. Hence, the appointment of Chief Internal Auditor was irregular.

Audit is of the view that weak internal controls resulted in irregular appointment of Chief Internal Auditor.

The matter was reported to the PAO on June 14, 2019. The management in its reply dated August 01, 2019 stated that the sitting Chief Internal Auditor had more than five years' service in Internal Audit Department. He was appointed as Chief Internal Auditor in 2015 and since then had been working to the satisfaction of the PMDC, BoD. The reply is not tenable as the management was required to observe the qualification of Chief Internal Auditor while making appointment. No further progress was reported till finalization of the report.

Audit recommends to justify irregular appointment of the Chief Internal Auditor.

[DP No. 655-Isd]

### *2.7.6.4 Inadmissible payment of Conveyance Allowance - Rs 5.857 million*

According to Rule 5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, the principles of probity and propriety entail that

company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage.

During audit of PLL for the FY 2017-18, it was observed that the company paid Conveyance Allowance of Rs 5.857 million to the officers/ staff in addition to monthly reimbursement of petrol up to 550 litres during FY 2017-18 amounting to Rs 1.893 million. Audit contended that simultaneous payment of Conveyance Allowance and reimbursement of fuel was against the principles of probity and propriety.

Audit is of the view that weak internal controls resulted in inadmissible payment of conveyance allowance amounting to Rs 5.857 million.

The matter was reported to the PAO on September 25, 2019. The management replied that as per the Companies Ordinance, 1984 (currently Companies Act, 2017) and the Public Sector Companies (Corporate Governance) Rules, 2013, the BoD of a company was fully empowered to make decisions about the company operations including hiring of human resources.

The DAC in its meeting held on November 26, 2019 directed the management to place the matter before BoD for reviewing the conveyance and fuel policy in the light of audit observation. No further progress was reported till finalization of the report.

Audit recommends to recover inadmissible payment from concerned officers / staff besides stopping the practice in future.

[DP No. 322-PLL]

### *2.7.6.5 Non- deduction of Provident Fund - Rs 1.8 million*

According to HR Manual of PLTL, all confirmed employees shall contribute to "Pakistan LNG Terminal Limited Contributory Provident Fund" @ 10% of basic monthly salary each month through payroll deduction. The Company shall make a matching contribution each month to the credit of the members account in the Fund.

During audit of PLTL for the FY 2017-18, it was observed that the management did not deduct provident fund of Rs 1.8 million from certain employees.

The matter was reported to the PAO on December 02, 2019. No reply was received till finalization of the report.

Audit recommends to ensure deduction of provident fund as per HR Manual.

[DP No. 661-ISD]

**Procurement related irregularities**

***2.7.6.6 Loss due to short utilization of terminal capacity - Rs 2,682.989 million***

According to Clause 9.3.1 of LNG Terminal Use & Re-gasification Agreement signed between PLTL and PLL dated 31.01.2018, daily delivery capacity is 600 MMCFD and peak daily capacity is 690 MMCFD. As per clause 23.1.4, Guaranteed Availability Factor means ninety-six percent (96%).

During audit of PLL for the FY 2017-18, it was observed that PLL utilized delivery capacity of 55,668.74 MMCF during January to June 2018 at an average of 314.03 MMCFD against available capacity of 104,680.85 MMCF. Hence, the company did not utilize the full delivery capacity of terminal or benefit from the guaranteed availability but paid terminal charges for full capacity. Furthermore, no agreement was made with SNGPL for delivery of RLNG in line with daily delivery capacity agreed upon with PLTL. This resulted in loss of Rs 2,682.989 million (US$ 19.874 million @ US$ 0.245 million per day).

Audit is of the view that weak internal controls resulted in erroneous need assessment for terminal capacity causing loss of Rs 2,682.989 million.

The matter was reported to the PAO on September 25, 2019. The management in its reply stated that in compliance with the directives of the Federal Government, PLL entered into back to back arrangement.

The DAC in its meeting held on November 26, 2019 directed the management to submit revised reply and get it verified from audit within a week. No further progress was reported till finalization of the report.

Audit recommends to investigate the matter with a view to fix responsibility on the person(s) at fault.

[DP No. 321-PLL]

***2.7.6.7 Irregular expenditure on procurement of vehicles - Rs 74.151 million***

According to Cabinet Division office memo No. 6-7(I) 02-M.11 dated July 22, 2005, the replacement of condemned vehicles and purchase of additional vehicles would be made with the approval of the Secretaries Incharge Ministries / Divisions and the sub-ordinates offices / attached departments under their administrative control and Finance Division respectively. According to Finance Division OM dated July 26, 2017 forwarded by the Ministry of Energy (Petroleum Division) on August 1, 2017 to all Public Sector Enterprises for compliance, complete ban was imposed on procurement of all types of vehicles.

During audit of ISGS and PMDC for the FY 2017-18, it was observed that management of the companies procured 05 and 25 vehicles respectively without prior approval of the Finance Division. Hence, the expenditure of Rs 8.155 million and Rs 65.996 million aggregating to Rs 74.151 million incurred on purchase of these vehicles was irregular.

Audit is of the view that weak financial controls resulted in irregular procurement of vehicles.

The matter was reported to the PAO in November, 2019. The management of ISGS in its reply dated January 02, 2020 stated that the instructions were not applicable on the company and that the BoD was competent to authorize purchase of vehicles. Similarly the management of PMDC in its reply dated August 01, 2019 stated that PMDC was an autonomous body governed by a BoD which was fully empowered to take any decision pertaining to the company. The reply of both the companies is not tenable because the subject policy was applicable on all PSEs and new vehicles could be

procured only with the approval of Finance Division. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for irregular procurement besides forwarding the case to the Finance Division for regularization.

[DP No. 659 & 647/Isd]

### *2.7.6.8 Irregular hiring of a chartered accountant firm - Rs 8.00 million*

According to Rule 12(1) of PPRA 2004, procurements over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency.

During audit of LCDCL for the FY 2018-19, it was observed that the management appointed M/s Deloitte Yousuf Adil for internal audit for the period 2018-19 at a professional fee of Rs 2 million per quarter. However, the services of internal auditors were hired without open competition. Moreover, the price quoted by the contracted firm was the third lowest among the quotations received by the management. This resulted in irregular procurement of services amounting to Rs 8 million besides non-realization of sales tax applicable on this payment.

Audit is of the view that poor procurement management resulted in irregular hiring of chartered accountant firm for Rs 8 million.

The matter was reported to the PAO in October, 2019. The management in its reply dated December 31, 2019 stated that appointment of internal auditor was outsourced after approval of BoD in its 88th meeting held on December 27, 2017. The reply is not tenable as procurement of services without open tendering was against PPRA Rules 2004. Further, the management did not justify non-realization of sales tax from the firm.

Audit recommends to get the expense regularised from Law Division.

[DP No. 624/K/LCDCL/2018-19]

### *2.7.6.9 Hiring of law firm without concurrence of Law Division - Rs 3.55 million*

According to Para 2(v) of Policy / Guidelines for hiring of advocates on the panel of various departments issued by Ministry of Law and Justice vide memo No. F.(6)/1/2013-LA dated 03.06.2015, every Government Department or Semi Government or Public Corporate Body shall seek concurrence of the Law and Justice Division for engagement of lawyer where professional fee exceeds Rs 300,000 (Rupees Three Lac). Any failure in doing so will render the engagement of Advocate/Counsel etc., void and no ex-post facto approval will be allowed.

During audit of LCDCL for the FY 2018-19, it was observed that the management engaged M/s Rasheed Razvi & Associates at professional fee of Rs 3.5 million with misc. expenses of Rs 0.05 million for filing petition in Sindh High Court, Karachi. However, no concurrence of Law Division was obtained as the expense exceeded the unit prescribed in the above mentioned policy. This resulted in irregular expense of Rs 3.55 million.

Audit is of the view that weak internal controls resulted in irregular engagement of legal firm for Rs 3.55 million.

The matter was reported to the PAO in October, 2019. The management in its reply dated December 31, 2019 stated that the BoD in its meeting approved the hiring of a lawyer to contest a case of lease area on urgent basis otherwise the LCDC would no more remain in operations. The reply is not tenable as the policy / guidelines for hiring of legal advisors was not followed by the company.

Audit recommends to fix responsibility for violation of guidelines besides improving internal controls.

[DP No. 709/K/LCDCL/2018-19]

## Contract Management

### *2.7.6.10 Loss due to non-imposition of liquidated damages - Rs 40.83 million*

As per Clause 4.14 of contract agreement between M/s ISGS and M/s ILF / NESPAK, if there is any delay in performance of stages-I and II

work/services as per such schedule other than for a cause which is beyond the control of consultant, the consultant shall pay to ISGS liquidated damages as reasonable compensation and not as a penalty of 0.1% of the lump sum contract price for stage-I per week subject to a maximum of 5% of such lump sum contract prices for stage -I.

During the audit of ISGS for the period 2012-16, it was observed that the management executed a consultancy agreement with M/s ILF-NESPAK for Iran Pakistan Gas Pipeline project on April 08, 2011 at a total lump sum contract price of US$ 11.812 million (Rs 693.679 million). According to Schedule-B of the contract, the project milestone work of stages-I and II was to be completed by February, 2015. The consultant, however, failed to complete the work within the scheduled dates with delay ranged from 07 to 45 weeks. In 77th BoD meeting held on October 11, 2013, the management recommended ex-post facto waiver to the consultant from payment of liquidated damages on the ground that ISGS had also failed to release payment to the consultant in time which would attract penalty on ISGS. The Board, however, did not approve the waiver and directed the management to place the matter in the next BoD meeting. However, the issue was not placed in any Board meeting held subsequently. This resulted in loss due to non-imposition of liquidated damages of Rs 40.83 million.

Audit is of the view poor management resulted in non-imposition of liquidated damages causing loss of Rs 40.83 million.

The matter was reported to the PAO in August, 2017 and November, 2019.

In DAC meeting held on September 12, 2017, the management stated that under the terms of the contract, both the parties were liable to pay damages for non-fulfilment of their obligations set forth in the contract. The company could be penalized for delay in the release of payments while the consultant could be penalized for delay in the submission of milestones. DAC decided to pend the para for verification by the Audit.

During verification dated January 2, 2020, the management reported that LPS payable by the company exceeded LD charges recoverable from the contractor. The non-recognition of liquidated damages was approved by the Board as part of financial settlement. Audit contends that negligence of

management in making timely payment resulted non-realization of LD charges causing loss to the company. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for late payment.

[DP No. 677/K]

### *2.7.6.11 Inadmissible payment of further hours to consultants - Rs 30.544 million*

According to the terms and conditions of bid documents of M/s ILF/NESPAK for consultancy services, the management will book 1,602 man-months (MM) and 38,137 man-days (MD) by identifying specified staff for stage-II activities.

During the audit of ISGS for the period 2012-16, it was observed that the management entered into an agreement with joint venture of M/s ILF and M/s NESPAK on April 08, 2011 for provision of consultancy services for stage-I and stage-II of Iran-Pakistan Gas Pipe Line Project. Consultancy charges for stage-I were fixed and mentioned in the contract but consultancy charges for stage-II were not mentioned in the contract. On the basis of consultant's bid, the management budgeted total cost for stage-II amounting to US$ 33.352 million for project engineering, management, procurement and construction supervision by planning / booking 1,602 man months (MM) and 38,137 man days (MD) against specified staff of the consultant.

It was however noticed that the consultant M/s ILF/NESPAK claimed an amount of Rs 30.544 million against "Further Hours" for the period 2012-13 to 2015-16 which was not admissible. Year wise position is given as under:

| Sr. No. | Years | Total payment of further hours (Rs) |
|---|---|---|
| 1 | June 30, 2013 | 569,347 |
| 2 | June 30, 2014 | 991,934 |
| 3 | June 30, 2015 | 991,334 |
| 4 | June 30, 2016 | 30,543,685 |

Audit is of the view that weak internal controls resulted in inadmissible payment of Rs 30.544 million.

The matter was reported to the PAO in August, 2017 and November, 2019.

In DAC meeting held on September 12, 2017 the management stated that "Actual Hours" represented the man-days for supporting staff / personnel deployed under the contract by consultant i.e. ILF-NESPAK. However, the term used by the consultant which was apparently confusing and misleading. DAC decided to pend the para for verification by audit.

During the verification it was noticed that the categories of staff engaged for the claim of "further hours" was not mentioned in the approved "break-down of cost estimates of stage-II activities", hence, the payment of further hours was inadmissible. No further progress was reported till finalization of the report.

Audit recommends to investigate the matter with a view to fix responsibility.

[DP No. 764]

**Defective Financial Management**

***2.7.6.12 Irregular advance payment against purchase of diesel generator - Rs 16.875 million***

As per Clause 8 of agreement of supply order, 100% payment will be made on submission / production of Inspection Certificate issued by the consignees' representative, Guarantee Certificate and Receiving Report.

During audit of PMDC for the FY 2017-18, it was observed that the management issued supply order to M/s Mak & Mak, Islamabad on July 13, 2015 for purchase of Diesel Generator for PMDC Collieries, Sor-Range Quetta. The management, however, made 75% advance payment in violation of agreement which resulted in irregular payment of Rs 16.875 million.

Audit is of the view that poor financial management resulted in undue favour to the contractor in payment of advance amounting to Rs 16.875 million.

The matter was reported to the PAO in November, 2019. The management in its reply dated January 2, 2020 stated that the matter was sub-judice in the court. Moreover, a departmental inquiry in this regard was being

carried out and its report would be submitted to Audit within one month. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for undue favour besides improving financial management.

[DP No. 646-Isd]

## Others

### *2.7.6.13 Delay in merger of LNG companies*

Ministry of Energy (Petroleum Division) through its letter No.1(1)/ASP/2018 dated February 6, 2018 communicated the directives of PM that Pakistan LNG Terminals Limited (PLTL) and Pakistan LNG Limited (PLL) be merged as soon as possible.

During audit of PLTL a subsidiary company of GHPL for the FY 2017-18, it was observed that the inordinate delay in merger of PLTL and PLL was affecting the smooth operations of the company as management could not focus on long term objectives of the company like, additional LNG terminals and allied infrastructure etc. Both the companies had completed the formalities and Joint Board meeting of the Board of Directors of GHPL, PLTL and PLL was held on June 28, 2018 wherein merger documents were updated. The updated documents were forwarded to GHPL vide letter dated 5th November 2018. The management, however, did not pursue the matter hence the final approval was still pending.

Audit is of the view that due to poor management merger of LNG companies was delayed despite completion of formalities.

The matter was reported to the PAO on December 02, 2019 but no response was received from management till finalization of the report.

Audit recommends that the reasons for delay may be intimated and efforts be made to finalize the process of merger.

[DP No. 660-ISD]

### *2.7.6.14 Non-deduction of Provincial sales tax on excavation services - Rs 20.207 million*

According to Rule 5 of Punjab Sales Tax on Services (withholding) Rules 2015, a withholding agent shall withhold the whole amount of Sales Tax shown in the tax invoice. Further, according to Rule 14 of Punjab Sales Tax on Services (withholding) Rules 2015, a withholding agent shall be considered defaulter and personally liable to pay the amount of tax to the government.

During the audit of PMDC for the FY 2017-18, it was observed that the management at Khewra paid an amount of Rs 146.508 million on account of excavation services hired from the contractor without withholding the amount of provincial sales tax @ 16%. This resulted in loss of revenue to the government amounting to Rs 20.207 million.

Audit is of the view that negligence of management resulted in violation of rules causing loss of Rs 20.27 million to the government.

The matter was reported to the PAO in November, 2019. The management in its reply dated January 2, 2020 stated that it had now complied with the applicable provisions of Provincial sales tax, since July, 2019. The reply is not tenable as the amount pointed out by audit was not recovered from the contractor. No further progress was reported till finalization of the report.

Audit recommends that the amount of the withholding of Provincial Sales Tax may be recovered and deposited in government treasury.

[DP No. 645-Isd]

# Chapter - 3

# Cabinet Division

## 3.1 Oil and Gas Regulatory Authority

### 3.1.1 Introduction

Oil and Gas Regulatory Authority Ordinance was promulgated in 2002 which replaced Natural Gas Regulatory Authority Ordinance, 2000. The Ordinance provided for the establishment of Oil and Gas Regulatory Authority (OGRA) with the objective to foster competition, increase private investment and ownership in the midstream (storage & carrying) and downstream (storage & distribution) petroleum and gas industry of Pakistan, protect the public interest while respecting individual rights and to provide effective and efficient regulations for related matters. The Authority comprises of Chairman/ Chairperson and three Members viz; Member (Gas), Member (Finance) and Member (Oil). They can serve for maximum two terms subject to retirement on attaining the age of 65 years. The Authority has the exclusive power to grant licenses for regulated activities with regard to Natural Gas, Compressed Natural Gas (CNG), Liquefied Petroleum Gas (LPG), Liquefied Natural Gas (LNG) and Oil sectors.

### 3.1.2 Comments on Audited Accounts

The Authority prepares its Financial Statements on commercial basis. These Financial Statements includes Income Statement, Balance Sheet etc. The Authority provided the Financial Statements for the FYs 2018-19 & 2017-18 according to which the working results of the Authority as compared to previous years remained as follows:

(Rs in million)

| | 2018-19 | % Inc/ (Dec) | 2017-18 | % Inc/ (Dec) | 2016-17 Restated |
|---|---|---|---|---|---|
| Income | 1,401.636 | 53.31 | 914.25 | 44.04 | 634.73 |
| Expenditure | 724.671 | 10.00 | 658.79 | 4.02 | 633.34 |

| | | | | | |
|---|---|---|---|---|---|
| Income from Operating Activities | 676.964 | 165.00 | 255.46 | - | 1.39 |
| Finance Cost | 3.184 | (4.04) | 3.32 | (2.24) | 3.39 |
| Other Income | 193.76 | 140.62 | 80.52 | 38.05 | 58.14 |
| Excess of Income over Expenses before tax | 867.541 | 160.78 | 332.67 | 492.64 | 56.13 |
| Provision for taxation | 255.509 | 192.71 | 87.29 | 382.64 | 18.09 |
| Excess of Income over Expenses after tax | 612.032 | 149.43 | 245.37 | 544.92 | 38.05 |

*(Source: Annual Audited Accounts)*

i. Inspection Fee-CNG/LPG appearing under liabilities was Rs 101.637 million in FY 2018-19 which means that huge number of inspections were pending which should have been finalized within shortest possible time.

ii. The Authority has shown an amount of Rs 30.801 million and Rs 27.194 million during FY 2018-19 and FY 2017-18 respectively under the head of Compensation Payable. This amount depicts the compensation received from different companies on account of mishaps/accidents occurred due to non-observance of HSE standards. These amounts should have been paid to the respective affectees immediately after receipt from the concerned quarters. The accumulation of balances under the head needs to be explained.

iii. The Authority has booked amounting to Rs 12.550 million under the head of Annual Fee Oil in FY 2018-19 against 20.751 million in FY 2017-18. The drastic decrease in annual fee by 39.52% needs to be justified.

iv. The figure under working capital increased from Rs 114.692 million in FY 2018-19 to Rs 18.012 million in FY 2017-18. The increase in working capital was mainly due to increase in accrued and other liabilities which increased to Rs 72.036 million during the FY 2018-19 from 49.971 million in FY 2017-18. The accumulation of other liabilities needs to be explained.

v. Internal audit was not being conducted since 2005 to 2019. The authority did not issue any advice to the Internal Audit Department for performing its function hence, the internal audit department employees were being paid salaries without carrying out internal audit as no internal audit report

was being submitted to the Authority. It is recommended to ensure compliance of Clause 15(b)(iii) of OGRA Financial Regulations, 2005 which provided that findings and recommendations of Internal Auditor be submitted directly to the Chairman. [DP No. 578 -OGRA]

## 3.1.3 Audit Profile of OGRA

Audit profile of OGRA under Cabinet Division is under:

(Rs in million)

| Sr. No. | Description | Total No. | Audited | Expenditure audited FY 2018-19 | Revenue / Receipts audited FY 2018-19 |
|---|---|---|---|---|---|
| 1 | Cabinet Division (OGRA) | 1 | 1 | 1,001.462 | 1,595.397 |

## 3.1.4 Classified Summary of Audit Observations

Audit observations amounting to Rs 3,772.807 million were raised in this report during the current audit of OGRA. This amount also includes recoveries of Rs 1,144.896 million as pointed out by Audit. Summary of the audit observations classified by nature is as under:

## 3.1.5 Overview of Audit Observations

(Rs in million)

| Sr. No. | Classification | Amount |
|---|---|---|
| 1 | Non production of record (1 para) | - |
| 2 | Irregularities | - |
| A | Defective financial management | 2,832.964 |
| B | Violation of rules / regulations and principles of propriety and probity in public operation | 906.862 |
| C | HR / Employees related irregularities | 32.981 |

## 3.1.6 Compliance of PAC Directives

| Audit Year | Total Paras | Full Compliance | Partial Compliance | Pending Paras | % of compliance |
|---|---|---|---|---|---|
| 2006-07 | 05 | 04 | 01 | 01 | 80 |
| 2009-10 | 01 | 0 | 01 | Annex 1 (Non submission of accounts) | - |

| 2010-11 | 08 | 0 | 8 | 1.2.1 & 1.2.2, 1.2.2.1, 1.2.2.2, 1.2.2.3, 1.2.2.4, 1.2.2.5, 1.2.2.6, 1.2.2.7 | - |
|---|---|---|---|---|---|
| 2013-14 | 16 | 03 | 13 | 3.2.2.4, 3.2.4.2, 3.2.4.7, 3.2.2.6, 3.2.2.7, 3.2.4.1, 3.2.4.4, 3.2.4.5, 3.2.4.6, 3.3.2.4, 3.3.2.5, 3.4.2.4 3.2.4.3 | 19 |
| 2016-17 | 02 | 01 | 01 | 13.7.4.3 | 50 |
| 2017-18 | 22 | 10 | 12 | 2.5.2.4, 2.5.4.6, 2.5.2.7, 2.5.2.8, 2.5.3, 2.5.4.1, 2.5.4.2, 2.5.4.3, 2.5.4.4,2.5.4.10, 2.5.4.11,2.5.4.13 | 45 |
| **Total** | **54** | **18** | **36** | **-** | **33** |

The overall compliance of the PAC directives was very poor and required immediate attention of PAO.

## 3.1.7 Audit Paras

### *3.1.7.1 Non-Production of record*

Section 14(2) of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001 states that the officer in-charge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete form as possible and with all reasonable expedition. Further the Public Accounts Committee directives, issued vide OM No.F-10(1)/2000/2004-PAC dated June 3, 2004 requires all PAOs Ministry / Divisions to make available all information/ record to Audit as and when required by them, otherwise disciplinary action will be initiated against person(s) responsible for the delay under Section-14(2) of the Auditor General's Ordinance No. XXIII of 2001.

During audit of OGRA, for the FY 2018-19 Authority did not produce the record relating to functions of the Authority to Audit, requisitioned vide letter No.12-FAT-I/Misc/DGAPNR/2018-19 dated October 03, 2019.

Audit is of the view that non-production of record and refusal to provide the record was violation of Section 14(2) of the Auditor General's Ordinance, 2001 and the directives of PAC. This attitude of the management is tantamount to concealment of facts due to which authenticity of accounts could not be ascertained.

The OGRA maintained that the audit of the functions of the regulatory authority is beyond the domain of Auditor General of Pakistan. The departmental stance is not tenable as the issue of Audit of the functions of OGRA by the Auditor General of Pakistan is pending at Ministry of Law and Justice. The Authority was required to provide the requisite record.

Audit recommends that requisite auditable record be produced immediately, besides fixing responsibility.

**Defective Financial Management**

***3.1.7.2 Non deposit of surplus receipts over expenditure to the Federal Consolidated Fund - Rs 624.397 million***

As per amendment made by Federal Government in Section 17 vide finalizing the Finance Act 2012, "all surplus of Income minus Expense must be deposited into Federal Consolidated Fund.

During scrutiny of record of OGRA for FY 2018-19, it was observed that the Authority did not deposit receipts over expenditure to the Federal Consolidated Fund for the year 2018-19. This resulted in non-deposit of surplus receipts of Rs 624.397 million over expenditure.

Audit is of the view that poor financial practices resulted in non-deposit of surplus receipts amounting to Rs 624.397 million to Federal Consolidated Fund.

The matter was reported to the Authority in September, 2019. The management in its reply dated December 27, 2019 stated that the Audit Report for FY 2017-18 was issued in May 2019 and the surplus amount was paid subsequently in Federal Consolidated Fund on June 18, 2019. The reply is not tenable as OGRA had deposited the surplus receipts for the FY 2017-18 whereas the audit observation pertained to FY 2018-19.

The DAC in its meeting held on December 31, 2019 constituted a Fact Finding Inquiry committee to determine reasons for non-deposit of surplus funds into FCF, to determine the authority that allowed such investment, aging of investment in treasury bills along with profit earned and its utilization within one month.

Audit recommends implementation of DAC directives.

[DP No.670-OGRA]

### *3.1.7.3 Non-realization of annual turnover fee from SNGPL on account of income of transportation cost of RLNG - Rs 200.44 million*

According to Rule 29 of Natural Gas Regularity Authority (Licensing) Rules 2002, a licensee shall be required to pay the fee for the grant, renewal, modification, execution, assignment, review, or re-issuance of a license specified in the Schedule–II to these rules @ 0.5% of annual turnover.

During audit of OGRA for the FY 2018-19, it was observed that the Authority did not recover 0.5% of annual turnover from M/s SNGPL on account of income of transportation of RLNG. This resulted in non-realization of Rs 200.44 million.

Audit is of the view that defective financial management by OGRA resulted in non-realization of annual turnover of Rs 200.44 million.

The matter was reported to the Authority in September, 2019. The management in its reply dated December 27, 2019 stated that the case had been taken up with SNGPL on October 8, 2019 for recovery of the fee for the period upto the FY 2019-20.

The DAC in its meeting held on December 31, 2019 directed OGRA to recover the turnover fee due from 2014 onward at the earliest and get it verified from Audit.

Audit recommends implementation of DAC directives.

[DP No. 638-OGRA]

### *3.1.7.4 Non-realization of annual inspection fee from CNG stations - Rs 50.700 million*

As per Clause 13(C)(i) Financial Regulations of OGRA, 2005, the revenue on its accruals must be claimed by the respective department by sending proper notice of demand to the licensees and proper record of the recoveries should also be maintained.

During audit of OGRA for the FY 2018-19, it was observed that the Authority carried out annual inspection of all its operational CNG stations through third party inspectors. OGRA charged Rs 50,000 from each station as annual inspection fee out of which 50% was remitted to 3rd party inspectors and remaining was retained by the organization to meet its expenditure. However, out of 3,330 CNG stations in the country, only 2,276 CNG stations had deposited their annual inspection fee whereas 40 CNG (Production and Marketing) licenses were cancelled by OGRA. Hence, 1,040 CNG stations did not deposit inspection fee for mandatory annual inspection resulting in non-recovery of Rs 50.700 million.

Audit is of the view that weak monitoring resulted in non-recovery of annual inspection of Rs 50.700 million.

The matter was reported to the Authority in September, 2019. The management in its reply dated December 27, 2019 stated that quoted inspection fee was not applicable on CNG stations which had closed down temporarily. However, documentary evidence such as billing history of the concerned station was not available with the Authority.

The DAC in its meeting held on December 31, 2019 directed the Authority to revise its rules and bring clarity regarding payment of inspection fee in respect of operational / partially operational and closed CNG stations at the

earliest. Further the data regarding temporarily closed CNG stations may be got verified with supporting billing history of the respective CNG stations.

Audit recommends compliance of DAC directives besides recovery of amount pointed out at the earliest.

[DP No. 822-OGRA]

### *3.1.7.5 Non-recovery of penalties imposed on Oil Marketing Companies - Rs 46.700 million*

According to Rule 69 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, a person who contravenes any provision of the Ordinance/rules, terms and conditions of the license or decision of the Authority, shall be punishable with fine which may be extended to ten million rupees and in case of a continuing contravention with further fine which may extend to one million rupees for every day during which such contravention continues. Moreover, the Authority decided to impose further fine @ 0.5% of the penalty amount per day in its Regularity Meeting No. 5 of 2018 held on April 24, 2018.

During audit of OGRA for FY 2018-19, it was observed that the Authority imposed penalties of Rs 58.300 million on 7 OMCs but failed to recover the same. The non-recovery of penalties resulted in revenue loss of Rs 58.300 million to the Government.

Audit is of the view that weak monitoring resulted in non-recovery of penalty amounting to Rs 58.00 million from OMCs.

The matter was reported to the Authority in September, 2019. The management in its reply dated December 27, 2019 stated that an amount of Rs 11.600 million had been recovered and verified by Audit whereas recovery of Rs 46.700 million was being perused.

The DAC in its meeting held on December 31, 2019, reduced the para to the extent of recovery with the direction to recover the balance amount at the earliest.

Audit recommends implementation of the DAC directives.

[DP No. 573-OGRA]

### *3.1.7.6 Irregular investment in Treasury Bills instead of depositing in Consolidated Fund - Rs 1,909.969 million*

According to Section 17(i) of Finance Act for 2012, all surplus of income minus expense must be deposited into Federal Consolidated Funds and any deficit from the actual expenditure shall be made up by the Federal Government.

During audit of OGRA for FY 2018-19, it was observed that the Authority had invested Rs 1,909.969 million in treasury bills instead of shifting it into Federal Consolidated Fund in violation of Finance Act, 2012.

Audit is of the view that defective financial management resulted in non-deposit of Rs 1,909.969 million in FCF.

The matter was reported to the Authority in September, 2019. The management in its reply dated December 27, 2019 stated that the surplus as per audited accounts of OGRA is regularly deposited into the Federal Consolidated Fund since 2012.

The DAC in its meeting was held on December 31, 2019 constituted a Fact Finding Inquiry Committee to determine the reasons for non-deposit of surplus funds into FCF, aging of investment in treasury bills along with profit earned and its utilization within one month.

Audit recommends implementation of the DAC directives.

[DP No. 641-OGRA]

### *3.1.7.7 Short deduction of charges for private use of official vehicles - Rs 0.758 million*

As per decision taken by the Authority in its administrative meeting No.01 of 2014 on January 10, 2014, the rate for private use of vehicle by the members / executives was revised to Rs 10 per kilometer.

During audit of OGRA for the FY 2018-19, it was observed that the members of the Authority used official vehicles for private purpose and paid hiring charges @ Rs 3 per Km for use of pool vehicles whereas rest of the staff paid Rs 10 per Km. This resulted in short deduction of hiring charges for private use of official vehicles amounting to Rs 0.758 million.

Audit is of the view that weak financial controls resulted in short deduction of charges for private use of pool vehicles by Members.

The matter was reported to the Authority in September, 2019. The Authority replied that the word Members was written erroneously in the decision dated January 10, 2014 because OGRA Service Regulations were not applicable to members. This error had been accordingly rectified in terms of Authority decision dated October 11, 2019. The reply was not tenable as the Authority revisiting its decision after lapse of 5 years instead of recovering the charges from the Members was questionable.

The DAC meeting was held on December 31, 2019. DAC showed its concern on the amendment made in the rules after issuance of audit observation granting undue favour to the senior management of the Authority and directed to recover the amount pointed out by Audit. DAC recommended that para may be placed before PAC for necessary direction.

Audit recommends implementation of the DAC directives.

[DP No. 579-OGRA]

**Violation of Rules / regulations and violation of principles of propriety and probity**

### *3.1.7.8 Irregular purchase of vehicles during ban period - Rs 11.904 million*

According to Para(i) of Austerity Measures for the Financial Year 2018-19 issued vide OM No. F.7(1)Exp-IV/2016-577 dated December 3rd, 2018 by Finance Division, there was ban on purchase of all types of vehicles both for current as well as development expenditure except operational vehicles of law enforcing agencies for which NOC from Finance Division would be required.

During audit of OGRA for FY 2018-19, it was observed that the Authority purchased 6 vehicles for Rs 11.904 million during the ban period without obtaining NOCs from Finance Division which rendered the purchase of vehicle irregular. The practice was being repeated from year to year despite the fact that no regularization was granted by the competent authority.

Audit is of the view that weak internal controls resulted in purchase of vehicles Rs 11.904 million in violation of government instructions.

The matter was reported to the Authority in September, 2019. The management in its reply dated December 27, 2019 stated that in the light of provisions of Section 3(2), 4(1), 17 & 18 of the OGRA Ordinance, 2002, the Authority was competent and fully authorized to incur expenditure in accordance with its budget duly approved by its Budget Committee. The reply is not tenable as OGRA had already been directed by PAC in its meeting held on September 23, 2019, while discussing an identical para No. 2.5.4.4 APRSE 2017-18, to get the expenditure regularized from the Finance Division.

The DAC in its meeting held on December 31, 2019 directed the Authority to take up matter for regularization from Finance Division through Cabinet Division within a week.

Audit recommends to fix the responsibility for repeated violation of instructions issued by Finance Division.

[DP No. 669-OGRA]

### *3.1.7.9 Irregular retention of CCP fee - Rs 195.570 million*

According to Clause 3 of S.R.O. 72(I)/2009 dated 28thd January, 2009 the percentage of fees and charges shall be paid by the Oil and Gas Regulatory Authority, such as the Federal Government may from time to time prescribe and notify in the Official Gazette, in pursuance of Clause (f) of Subsection (2) of Section 20 of the Competition Ordinance, 2007.

During audit of OGRA for the financial year 2018-19, it was observed that the Authority did not remit the Competition Commission of Pakistan (CCP) fund fee as shown in the Financial Statements for the year ended June 30, 2019.

Audit is of the view that the Authority was required to deposit the amount in Federal Consolidated Account instead of retaining the same in OGRA fund. The lapse resulted in irregular retention of CCP fee of Rs 195.570 million.

The matter was reported to the Authority in September, 2019. The management in its reply dated December 27, 2019 stated that the matter regarding payment of Fee to CCP is under consideration of the Finance Division, therefore, the matter of payment of CCP fee would be taken up after finalization of the same by the Finance Division.

The DAC in its meeting held on December 31, 2019 directed OGRA to amend the relevant rules / regulation in the light of SRO dated January, 2009 at the earliest.

Audit recommends implementation of the DAC directives.

[DP No. 577-OGRA]

### *3.1.7.10 Unlawful sale of LPG through unauthorized network*

According to Clause 11 of LPG Rules, 2001, no licensee shall, without the prior approval in writing of the Authority - (a) sell, assign, transfer, convey or lease his license or his works or any interest therein in whole or in part; (b) enter into any agreement or contract for (i) the amalgamation of his works with those of any other person or company; and (ii) the operation of his works by any other person or company; or (c) mortgage or otherwise create a charge upon the works or any interest therein. Further, Clause 29 of the said rules states that whoever commits a breach of these rules shall without prejudice to any other action that may be taken against him, be punishable for every such breach with fine which may extend to five hundred thousand rupees.

During audit of OGRA for FY 2018-19, it was observed that neither OGRA nor district administration had initiated any action against the unlawful selling of LPG. These unlawful gas filling shops, which numbered in hundreds, were operating in different residential localities and posed a constant threat to the residents.

Audit is of the view that due to negligent managerial practices, OGRA failed to restrict LPG marketing/distributions companies and their local agents from selling LPG through such unlawful networks.

The matter was reported to the Authority in September, 2019. The management in its reply dated December 27, 2019 stated that Rules 11 and 29 of LPG (Production and Distribution) Rules, 2001, were applicable only on LPG licensees / license holders of OGRA. The reply is not tenable as being a regulator, OGRA was regulating mid and downstream LPG in the country under OGRA Ordinance, 2002, therefore, OGRA was responsible to check unlawful sale of LGP in the country.

Audit recommends the Authority to initiate immediate action against unlawful selling and distribution network of LPG besides devising mechanism to restrict the practice.

[DP No. 640-OGRA]

### *3.1.7.11 Non-vetting of Financial and Service regulations from Ministry of Finance - Rs 699.388 million*

As per Finance Division (Regulation Wing-II) letter O.M No. F-1 (1) imp/94 dated Jun 29, 1999 the revision of salaries, allowances and perquisites of the supervisory and executive staff of Public Sector Corporations, Autonomous/Semi-autonomous bodies may be carried out by the respective Boards of Directors besides clearance from the Finance Division. Further, according to rule 41 of OGRA Ordinance of 2002, the Authority may with the approval of the Federal Government, make rules for carrying out the purposes of this ordinance. Furthermore, as per rule 12 of Rules of Business 1973, no Division shall, without prior consultation with the Finance Division, authorise the issue of any order which involves a change in the terms and conditions of service of Government servants on their statutory rights and privileges and has financial implications.

During audit of OGRA for the FY 2018-19, it was observed that management framed OGRA Service Regulation in 2005 but did not get them

vetted from Ministry of Finance. This resulted in irregular expenditure of pay and allowances amounting to Rs 699.388 million.

Audit is of the view that negligence of the management resulted in irregular expenditure of Rs 699.388 million due to non-vetting of financial and service rules.

The matter was reported to the Authority in September, 2019. The Authority in its reply dated December 27, 2019 stated that OGRA worked under the ambit of OGRA Ordinance, 2002 and the rules and regulations made there under which had no provision to refer OGRA Regulations to Finance Division.

The DAC in its meeting held on December 31, 2019, directed OGRA to get its rules/regulations vetted from Finance Division at the earliest.

Audit recommends to implement directives of the DAC.

[DP No. 823-OGRA]

**HR / Employees related irregularities**

***3.1.7.12 Unjustified payment of interest free motor car advance - Rs 27.089 million***

As per Finance Division (Regulation Wing-II) letter O.M No. F-1(1) imp/94 dated Jun 29, 1999 the revision of salaries, allowances and perquisites of the supervisory and executive staff of Public Sector Corporations, Autonomous/Semi-autonomous bodies may be carried out by the respective Boards of Directors besides clearance from the Finance Division. Further, according to rule 41 of OGRA Ordinance of 2002, the Authority may with the approval of the Federal Government, make rules for carrying out the purposes of this ordinance.

During audit of OGRA for FY 2018-19, it was observed that the management granted interest free motor car loan of Rs 27.089 million to its executive cadre employees. The car loan policy was approved by the Authority in its administrative meeting No. 09 held on July 01, 2014 but was not got vetted by the Finance Division. As the employees were entitled to interest on their CPF

balances they should have paid interest on loans obtained from OGRA in line with Federal Government practice. Only the employees who did not receive interest on CPF should have been entitled to interest free loans. This resulted in unjustified payment of interest free motor car advances to the employees amounting to Rs 27.089 million.

Audit is of the view that undue favour was extended to the employees of the Authority to the tune of Rs 27.089 million at the expense of general public.

The matter was reported to the Authority in September, 2019. The management in its reply dated December 27, 2019 stated that it was exclusively empowered to determine the matters in its jurisdiction including pay & allowances and remuneration policies of its employees. The reply is not tenable, the Ordinance only gives exclusive powers to grant licenses, and OGRA has no exclusive right to make service rules without approval of Federal Government. Further, as per Rule 12 of Rules of Business 1973, no Division shall, without prior consultation with the Finance Division, authorise the issue of any order which involves a change in the terms and conditions of service of Government servants on their statutory rights and privileges and has financial implications.

The DAC in its meeting held on December 31, 2019 directed OGRA to seek opinion from Finance Division in the matter through Cabinet Division.

Audit recommends to implement directives of the DAC.

[DP No. 824-OGRA]

### *3.1.7.13 Irregular appointment of Member (Oil) - Rs 5.892 million*

According to Section 3(5) of OGRA Ordinance 2002, the Member Oil shall be a person who holds an appropriate degree in the relevant field and is an experienced, eminent professional of known integrity and competence with a minimum of twenty years of related experience in the field of oil, including the transportation thereof.

During audit of OGRA, Islamabad for the FY 2018-19, it was observed that Cabinet Division appointed Member (Oil) after getting approval of Prime Minister on March, 2017 despite the fact that appointee did not have the required relevant experience prescribed in the Ordinance. This resulted in

irregular appointment of Member (Oil) and inadmissible payment of salary of Rs 5.892 million.

Audit is of view that non-adherence to OGRA Ordinance resulted in irregular appointment and payment of salary amounting to Rs 5.892 million.

The matter was reported to the PAO/Authority in September, 2019. The Cabinet Division explained that matter was sub-judice in review petition at Islamabad High Court, Islamabad.

The DAC in its meeting held on December 31, 2019 pended the para till final decision of the court.

Audit recommends to justify irregular appointment of Member (Oil) in violation of given criteria.

[DP No. 576-OGRA]

### ***3.1.7.14 Excess payment of pay & allowances during leave***

According to Rule 7-A of Supplementary Rules, conveyance / monetization allowance is not admissible during leave.

During audit of OGRA for the FY 2018-19, it was observed that certain executives proceeded on leave on full pay but the deduction on account of Conveyance Allowance was not made since 2002. The conveyance allowance was granted to employees to compensate for their travel expenses to and from their residence and workplace. Same deductions were made from the employees of Federal and Provincial Governments and public sector companies. Hence, violations of rules resulted in excess payment of Rs 0.759 million during 2018-19 to the officials.

Audit is of the view that negligence of the Authority resulted in excess payment of Rs 0.759 million during leave.

The matter was reported to the Authority in September, 2019. The management in its reply dated December 27, 2019 stated that no deduction of conveyance / monetization allowance was made due to non-availability of such provision in Service and Financial Rules.

The DAC in its meeting held on December 31, 2019 directed OGRA to take up matter with Finance division through Cabinet Division for clarification.

Audit recommends to recover the excess payment since 2002 besides implementation of DAC directives.

[DP No. 574-OGRA]

### *3.1.7.15 Poor performance of Oil Department*

According to Section 6 of OGRA Ordinance 2002, the Authority shall be exclusively responsible for granting licenses for carrying out of regulated activities and regulating such activities. Further, clause q (6), OGRA shall protect the interest of all stakeholders including the consumers and the licensees in accordance with the provisions of this Ordinance as per Clause, x (6) OGRA shall enforce standards and specifications for refined oil products as notified by the Federal Government.

During audit of OGRA for the FY 2018-19, it was observed that out of 9,500 retail outlets of oil marketing companies, inspections of only 420 outlets was carried out by the Oil Department which was less than 5% of total outlets and reflected unsatisfactory performance of the Oil Department. Further, OGRA carried out inspections of unlawful petrol pumps instead of company operated outlets. Consequently every year dozens of fire incidents were reported due to unsafe refuelling practices of unlawful petrol depots. Besides unlawful sale of petroleum products, these small filling stations were also violating fuel price regulations and most of them were selling fuel at higher rates from the notified price. However, neither the district administration nor the Oil and Gas Regulator Authority took any action to fix the problems permanently.

Audit is of the view that due to slackness in performance of its regulatory function, OGRA failed to protect the interest of all stakeholders including the consumers to ensure the quality of petroleum products.

The DAC in its meeting held on December 31, 2019 recommended to place the para before PAC for final decision.

Audit recommends to take strict action against unlawful retail outlets through effective enforcement mechanism.

[DP No. 821-OGRA]

**Annex-1**

# MFDAC PARAS

The Director General Audit, Petroleum and Natural Resources, Lahore on behalf of the Auditor-General of Pakistan, conducted the audit of the accounts of Ministry of Energy (Petroleum Division), all the organizations under this Ministry and OGRA for the year 2018-19.

As a result of audit conducted during 2018-19, various types of financial irregularities and losses of public money etc., were detected and reported to the Ministry / Divisions and organizations concerned. The important irregularities / losses and malpractices pertaining to various organizations have been printed in this report, while irregularities / losses not considered worth reporting to the PAC as listed below were left for Departmental Accounts Committees. The same will be discussed with the respective Secretaries to the Ministry / Divisions by the Director General Audit, Petroleum and Natural Resources, Lahore.

(Rs in million)

| Sr. No. | Name of Formation | DP No | Description | Amount |
|---|---|---|---|---|
| 1. | DG (Oil) | 413 | Non-payment of windfall levy retained on local crude oil prices | 98.88 |
| 2. | DG (Oil) | 414 | Non-payment of discount retained on local crude oil prices | 14.708 |
| 3. | DG (Oil) | 668 | Non realization of discount on crude oil/ condensate and windfall levy | 3.424 |
| 4. | DG (PC) | 398 | Short-realization of Marine Research Fee | 4.617 |
| 5. | DG (PC) | 564 | Non-withholding of Income tax on payment made to non-resident | 2.737 |
| 6. | DG (PC) | 672 | Framing of training guidelines in contravention of TA, rules and petroleum policy 2012 | 0 |
| 7. | DG (PC) | 795 | Loss due to non-inclusion of clause of prequalification of bidder in petroleum policy | 37.68 |
| 8. | DG (PC) | 715 | Irregular grant of block in violation of E&P Rules, 1986 | 0 |
| 9. | DG (PC) | 565 | Non-realization of production bonus | 96 |
| 10. | DG (PC) | 714 | Non-realization of liquidated damages on surrender of blocks | 2,767.08 |
| 11. | MoE (PD) Exp | 336 | Irregular purchase of vehicles during ban period | 2.406 |

| | | | | |
|---|---|---|---|---|
| 12. | MoE (PD) Exp | 337 | Inadmissible payment of deputation allowance | 0.852 |
| 13. | MoE (PD) Exp | 339 | Non-recovery of outstanding dues for rent charges | 1.418 |
| 14. | MoE (PD) Exp | 502 | Violation of Public Accounts Committee Directives regarding placing of minutes BoD and its Committee meetings at their websites. | 0 |
| 15. | Shell Pakistan Ltd | 635/K | Loss of revenue due to application of lower rate of petroleum levy of MS 87 Ron to higher grade MS 95 Ron | 131.04 |
| 16. | GSP | 580 | Non-acquisition of (i) truck mounted drilling rig (ii) skid mounted drilling rig and accessories and spare parts | 248.875 |
| 17. | GSP | 633 | Un-authorized payment to security agency | 3.772 |
| 18. | HDIP (Exp) | 568 | Non recovery of inspection fee of CNG stations and sample testing fee | 5.322 |
| 19. | PTC, Quetta HDIP | 110/K | Loss incurred by HDIP (CNG Station), Quetta | 2.647 |
| 20. | PTC, Quetta HDIP | 416/K | Loss due to late registration of Baluchistan Sales Tax | 3.557 |
| 21. | OGDCL | 420 | Loss due to non-deduction of LD – charges - Rs.109.826 million | 109.826 |
| 22. | OGDCL | 380 | Non-payment of concession welfare, rental, training and other obligations | 285.965 |
| 23. | OGDCL | 440 | Loss due to non-deduction of LD charges and non-encashment of bank guarantee | 3247.25 |
| 24. | OGDCL | 445 | Loss due to Unlawful adjustment to buyer on sale of gas | 135.952 |
| 25. | OGDCL | 459 | Extra cost due to slow activity of OGDCL seismic parties | 17.127 |
| 26. | OGDCL | 801 | Un justified distribution of ambulance from CSR Fund | 95.4 |
| 27. | OGDCL | 831 | Extra expenditure on standby Rig for 20 days | 41.265 |
| 28. | OGDCL | 340 | Irregular payment against LC for procurement of valves | 86.957 |
| 29. | OGDCL | 341 | wasteful expenditure on outsourcing 2D survey work | 2,141.705 |
| 30. | OGDCL | 342 | Irregular award of contract for purchase of pipeline | 819.058 |
| 31. | OGDCL | 354 | Irregular payment of salary due to non-stoppage of pay during absence | 2.971 |
| 32. | OGDCL | 360 | Irregular award of contract for Annual Turn Around (ATA) of Uch-II and KPD-TAY plants | 49.714 |
| 33. | OGDCL | 375 | Non-compliance of Supreme Court Judgment resulting in irregular payment of salaries | 56.090 |
| 34. | OGDCL | 468 | Poor procurement planning resulting in delay in Annual Turn Around | 0 |

| 35. | OGDCL | 469 | Poor procurement planning resulting in shortage of stock | 1,240.89 |
|---|---|---|---|---|
| 36. | OGDCL | 359 | Irregular payment of pay & allowances due to irregular extension of contract | 8.425 |
| 37. | OGDCL | 353 | Irregular payment of additional pay without approval of appointing authority. | 1.091 |
| 38. | OGDCL | 419 | Loss due to installation of Sales Gas Metering Skid in violation of AGA-3 specification | 51.623 |
| 39. | OGDCL | 436 | Variations between quantities produce and sold 752,052 BBL | 0 |
| 40. | OGDCL | 437 | Loss due to delay in installation of Fin Fan Cooler | 1,483.61 |
| 41. | OGDCL | 471 | Loss due to non-initiation of action against the contractor | 4.254 |
| 42. | OGDCL | 799 | New installation of SCADA system at Mela Field | 0 |
| 43. | OGDCL | 825 | Avoidable expense incurred on rental equipment at Nashpa JV | 548 |
| 44. | OGDCL | 844 | Wasteful expenditure on foreign visit to evaluate the contractor's ability | 0 |
| 45. | OGDCL | 845 | Unlawful production sale revenue from expired lease | 165.294 |
| 46. | OGDCL | 846 | Lack of internal control on accounting system leads to poor decision making | 0 |
| 47. | OGDCL | 456 | Loss due to non-deduction of LD charges for delay in completion of project | 2,308.80 |
| 48. | OGDCL | 350 | Inadmissible payment to private secretary to the Foreign Minister | 2.203 |
| 49. | OGDCL | 356 | Non-determination of prescribed qualification and experience for newly created grade IX-A posts | 0 |
| 50. | OGDCL | 358 | Irregular appointment in violation of Supreme court judgment regarding dual nationality. | 0 |
| 51. | OGDCL | 465 | Unjustified reduction in experience for recruitment of employees. | 0 |
| 52. | PPL | 626 | Irregular promotion of manager security affairs and manager legal | 0 |
| 53. | PPL | 631 | Irregular pre-qualification for procurements and service in violation of PPRA Rules, 2004 | 0 |
| 54. | PPL | 703 | Non-achievement of targeted Development Plan | 0 |
| 55. | PPL | 760 | Non-conclusion of inquiries within prescribed timeframe | 0 |
| 56. | PSO | 591 | Loss of investment in unviable / disputed outlets resulting in closure of sites | 35.148 |
| 57. | PSO | 275 | Short sale of POL products against fixed targets | 8,022.485 |
| 58. | PSO | 281 | Short sale of POL products against fixed targets | 2,143.794 |

| | | | | |
|---|---|---|---|---|
| 59. | PSO | 285 | Short sale of POL products against fixed targets | 3,913.73 |
| 60. | PSO | 296 | Wasteful expenditure on procurement of engine driven fire pump due to non-installation | 5.0 |
| 61. | PSO | 297 | Non-claiming of adjustment of input sales tax paid on utility bills | 1.322 |
| 62. | PSO | 611 | Irregular purchase of petroleum products without agreement | 0 |
| 63. | PSO | 747 | Non-delivery of POL products by the cartage contractors | 18.576 |
| 64. | PSO | 748 | Non-charging of late delivery charges | 0.933 |
| 65. | PSO | 808 | Working loss of 31425 liters of HOBC | 0 |
| 66. | PSO | 290 | Non production of record | 0 |
| 67. | PSO | 612 | undue favor to the contractor | 2,347.65 |
| 68. | PSO | 757 | Undue favor to the employee involved in fraud | 5.528 |
| 69. | PSO | 809 | Undue favor to the employee | 17 |
| 70. | PSO | 615 | Unauthorized procurement of additional quality of MOGAS | 2.607 |
| 71. | PSO | 687 | Non conclusion of inquiry report about misuse of authority and favoritism in award of contracts | 31.985 |
| 72. | SNGPL | 857 | Theft of operational vehicle | 1.5 |
| 73. | SNGPL | 300 | Non-imposition of default surcharge on belated payment of sales tax | 5.55 |
| 74. | SNGPL | 304 | Loss due to billing to commercial consumers at pressure less than 2 PSIG | 6.43 |
| 75. | SNGPL | 391 | Non-imposition of penalty on consumers involved in meter tampering and theft of gas | 213.6 |
| 76. | SNGPL | 491 | Un-justified cancellation/waiver off late payment surcharge | 41.13 |
| 77. | SNGPL | 492 | Irregular payment to contractors without pre-qualification | 34.46 |
| 78. | SNGPL | 493 | Non-deposit of penalty due to non-issuance of sales tax invoice | 7.13 |
| 79. | SNGPL | 494 | Short-deduction of withholding tax | 2.73 |
| 80. | SNGPL | 548 | Irregular expenditure on account of salaries and wages | 7.9 |
| 81. | SNGPL | 666 | Short deduction of withholding tax | 1.21 |
| 82. | SNGPL | 723 | Non-deposit of banking instrument in SNGPL accounts | 0.75 |
| 83. | SNGPL | 766 | Irregular HR expense in violation of OGRA direction | 351.65 |
| 84. | SNGPL | 786 | Blockage of resources due to non- procurement | 9.5 |
| 85. | SNGPL | 787 | Blockage of funds due to continues revalidation | 1,405.95 |

|  |  |  | of past budgets |  |
|---|---|---|---|---|
| 86. | SNGPL | 788 | Excess expenditure due to delayed payment and non- deduction of income tax | 0.98 |
| 87. | SNGPL | 789 | Blockage of fund due to continues revalidation of post budget | 574.66 |
| 88. | SNGPL | 847 | Non-issuance of gas bills resulting in penalty under Sales Tax Act, 1990 | 385.73 |
| 89. | SNGPL | 854 | Irregular expenditure due to grant of increment | 661.27 |
| 90. | SNGPL | 856 | Non-obtaining surety bonds for paid leave | 1.6 |
| 91. | SNGPL | 869 | Non finalization of insurance claim | 3.83 |
| 92. | SNGPL | 514 | Non-development of Dhoke Hussain well-I pipeline due to non-provision of gas facility to locality / villages which fall within 5 km of gas field | 226.28 |
| 93. | SNGPL | 872 | Unjustified expenditure on insurance for loss of profit | 42 |
| 94. | SNGPL | 487 | Violation of directive of BOD by non-installing urgent fee meters within 90 days | 3.85 |
| 95. | SNGPL | 489 | Non-realization of late payment surcharge from bank who fail to submit bank scroll | 69.79 |
| 96. | SNGPL | 318 | Non follow up of hand held unit complaints | 0 |
| 97. | SNGPL | 665 | Loss due to mishandling of conical baffles | 3.76 |
| 98. | SNGPL | 551 | Irregular payment of account of casual labour | 223.82 |
| 99. | SNGPL | 558 | Irregular expenditure on account of repair of vehicles and equipment | 22.01 |
| 100. | SNGPL | 853 | Cost overrun GOP funded jobs | 21.17 |
| 101. | SNGPL | 777 | Non completion of disciplinary inquiries within stipulated period | 0 |
| 102. | SNGPL | 779 | Irregular payment to student meter readers | 35.070 |
| 103. | SNGPL | 780 | Irregular revision of pay and allowance | 3.606 |
| 104. | SNGPL | 862 | Poor inventory management and under/over statement of stock position | 0 |
| 105. | SNGPL | 864 | Non observance of DAC recommendation regarding proper maintenance of procurement file | 0 |
| 106. | SNGPL | 870 | Collection of sales tax on services in negation to presidential order | 256.2 |
| 107. | SNGPL | 317 | Loss due to non-replacement of sticky meters | 17.201 |
| 108. | SSGC | 735 | Irregular appointment on fake degree resulting irregular payment of salary | 0.782 |
| 109. | SSGC | 404 | Non Reconciliation with Federal Treasury/SBP on account of GIDC collected and deposited in NBP | 3,201.73 |

| 110. | SSGC | 195 | Unauthorized allotment of premises for medical stores | 1.8 |
|---|---|---|---|---|
| 111. | SSGC | 405 | Non Recovery of Insurance Claims from NICL | 0.09 |
| 112. | SSGC | 589 | Non-recovery of GIDC | 31,682 |
| 113. | SSGC | 609 | Irregular award of contract to the 2nd lowest bidder | 12.01 |
| 114. | SSGC | 698 | Non-furnishing of copies of contract awards to NAB | 2,021.43 |
| 115. | SSGC | 733 | Irregular procurement of components for Gas Meters | 366.391 |
| 116. | SSGC | 820 | Non recovery of advance rent from dismissed employee | 0.55 |
| 117. | SSGC | 212 | Non-recovery of outstanding amount from employees | 4.28 |
| 118. | SSGC | 187 | Irregular procurement of heavy vehicles and water tanker | 7.615 |
| 119. | SSGC | 190 | Irregular procurement of vehicles in violation of PPRA Rules | 3.6 |
| 120. | SSGC | 225 | Irregular and unauthorized process for award of ditching / backfilling contracts to the contractors through quotations | 2.25 |
| 121. | SSGC | 226 | Loss due to non-return (17%) under OGRA License on capitalized expenditure in SSGC District East Region | 0.45 |
| 122. | SSGC | 734 | Doubtful payment to contractor | 5.07 |
| 123. | SSGC | 193 | Irregular payment to Red Crescent Hospital without contract agreement | 2.23 |
| 124. | SSGC | 194 | Improper arrangement for storing medicines | 107.92 |
| 125. | SSGC | 213 | Non-deposit of Baluchistan Sales Tax on Services | 1.64 |
| 126. | SSGC | 875 | Non realization of payable by JJVL as per agreement between SSGCL & JJVL in pursuance of Apex court order | 1,848.74 |
| 127. | SSGC | 197 | Unauthorized utilization of CSR Funds without approved policy | 41.31 |
| 128. | SSGC | 594 | Irregular unjustified transfer of Senior engineer on deputation in PHA | 0 |
| 129. | SSGC | 697 | Irregular appointment over and above the prescribed age limit | 0 |
| 130. | SSGC | 736 | Lenient action against accused Engineer Transmission | 0 |
| 131. | SSGC | 732 | Unjustified expenditure on Corporate Social Responsibility (CSR) | 20 |
| 132. | SSGC | 597 | Loss due to delayed issuance of purchase order. | 2.53 |
| 133. | SSGC | 598 | Irregular award of contract 2nd lowest bidder in | 33.79 |

| | | | violation of PPRA rules | |
|---|---|---|---|---|
| 134. | SSGC | 600 | Irregular award of contract to 3rd lowest bidder | 1.59 |
| 135. | SSGC | 601 | Un-authorized use of pool vehicles by senior executives | 0 |
| 136. | SSGC | 608 | Irregular award of additional work in violation of PPRA Rules 2004 | 3.73 |
| 137. | SSGC | 741 | Non-realization of liquidated damages | 1.96 |
| 138. | SSGC | 730 | Abnormal delay in completing procurement of Skid Mounted 6″Orifice Meter System for project | 3.6 |
| 139. | SSGC | 214 | Award of canteen contract without competition | 2.21 |
| 140. | SSGC | 200 | Irregular execution of scheme through private companies | 1.08 |
| 141. | SSGC | 742 | Non-recovery of refundable security deposit | 6.5 |
| 142. | SSGC | 739 | Irregular appointment of Assistant Manager over and above the prescribed limit | 1.434 |
| 143. | GHPL | 656 | Non-verification of degrees of employees at the time of initial appointment | 0 |
| 144. | GHPL | 657 | Non-recovery of accounts receivable and late payment surcharges from various customers | 41,326 |
| 145. | GHPL | 658 | Non-impact of training of employees | 0 |
| 146. | ISGS | 634 | Wasteful expenditure on stage-II of IP Project without approval of budget | 62.054 |
| 147. | LCDCL | 623 | Violation of Insurance Ordinance, 2000 due to use of services of an insurer other than NICL | 0.428 |
| 148. | LCDCL | 622 | Excess payment of leave encashment | 0.274 |
| 149. | LCDCL | 708 | Irregular award of work without tendering | 0.237 |
| 150. | LCDCL | 707 | Irregular payment of advance against expenses to employees | 4.659 |
| 151. | LCDCL | 625 | Purchase of vehicles during ban period | 4.456 |
| 152. | LCDCL | 765 | Non recovery of outstanding amount from LPGCL for sale of coal | 36.445 |
| 153. | PLL | 323 | Loss due to short deduction of income tax | 0.229 |
| 154. | PLTL | 839 | Non-conduct of training of employees | 0 |
| 155. | PMDC | 651 | Illegal appointment of company secretary and payment of inadmissible corporate allowance | 0.78 |
| 156. | PMDC | 644 | Unjustified sale agreement with industries recurring loss to the company | 477.116 |
| 157. | PMDC | 653 | Non-realization of sales tax on sale of raw salt to dealer | 137.946 |
| 158. | PMDC | 648 | Irregular grant of pay and perks to M.D | 23.4 |
| 159. | PMDC | 650 | Short-deduction of withholding tax on salaries | 1.474 |

| | | | | |
|---|---|---|---|---|
| 160. | PMDC | 654 | Non-deduction of income tax on sale of vehicles to employees below fair market value | 0.631 |
| 161. | OGRA | 572 | Non-receipt of annual regularity fee from 68 LPG refueling/dispensing stations | 3.4 |
| 162. | OGRA | 639 | Irregular payment to M/s TCS on account of postage & telegraph | 1.492 |
| 163. | OGRA | 718 | Non-receipt of annual license fee from SNGPL for the year 2019-20 | 0 |
| 164. | OGRA | 570 | Non-adjustment/recovery of advances from employees | 3.897 |

**Annex-2**

## Non-Submission of Audited Accounts

Annual audited accounts of Public Sector Enterprises for the year 2018-19 were to be provided to the Directorates General Audit, Petroleum and Natural Resources, Lahore by Dec 31, 2019. Despite repeated requests, the organizations (listed below) did not provide their annual audited accounts for the year 2018-19 or for the previous years by the prescribed date. While non-submission of audited accounts needs to be explained, efforts need to be made to finalize and provide the accounts immediately.

| Sr. No. | Name of Ministry / Division / Organization | Year of Accounts |
|---|---|---|
| **Ministry of Petroleum & Natural Resources** | | |
| 1 | SNGPL | 2018-19 |
| 2 | SSGC | 2017-18 & 2018-19 |
| 3 | LCDCL | 2018-19 |
| 4 | GHPL | 2018-19 |
| 5 | PLTL | 2018-19 |
| 6 | PLL | 2018-19 |

**Annex-3**

**(Para 2.1.3)**

## Audit profile of Ministry of Energy (Petroleum Division)

(Rs in million)

| Sr. No. | Description | Total Nos. | Audited | Expenditure audited FY 2018-19 | Revenue / Receipts audited FY 2018-19 |
|---|---|---|---|---|---|
| **1** | **Ministry of Energy (Petroleum Division) / Bodies** | 1 | 1 | **979.654** | **346,662.000** |
| (i) | GSP | | | | |
| (ii) | HDIP | | | | |
| **2** | **Autonomous Bodies / PSEs etc. under the PAO** | | | | |
| (iii) | OGDCL | | | 219,693.281 | 335,513.482 |
| (iv) | PPL | | | 144,369.079 | 223,225.157 |
| (v) | PSO | | | 1,157,463.010 | 1,348,490.081 |
| (vi) | SNGPL | | | 563,910.216 | 517,941.877 |
| (vii) | SSGCL | | | 207,452.574 | 200,480.478 |
| (viii) | GHPL | | | 45,269.801 | 71,787.399 |
| (ix) | ISGS | | | 546.815 | 35.913 |
| (x) | LCDCL | | | 142.983 | 149.239 |
| (xi) | PLTL | | | 5,160.405 | 5,766.247 |
| (xii) | PLL | | | 72,746.348 | 86,280.810 |
| (xiii) | PMDC | | | 2,632.084 | 2,988.163 |
| | **Total Autonomous Bodies / PSEs etc. under the PAO** | **16** | **13** | **2,419,386.595** | **2,792,658.845** |

*Audit of SML, MARI and PARCO was not conducted.

**Annex-4**

**(Para 2.2.6.55)**

**Non-Compliance of BoD's directives regarding fixation of salary bands of contract employees**

| Sr. No. | Name of Officer | Grade | Designa-tion | Basic Pay of contract employee | Maximum basic pay band of regular employee | Excess salary than regular | Remarks |
|---|---|---|---|---|---|---|---|
| 1 | Masood Nabi | CE-9 | Executive Director (JV) | 1,016,129 | 740,000 | 276,129 | No salary band prescribed for contract employee |
| 2 | Ahmed Hayyat Lak | EG-8 | Company Secretary | 888,106 | 620,000 | 268,106 | -do- |
| 3 | Usman Mansoor Bajwa | EG-3 | Corporate Planning Officer | 459,397 | 210,000 | 249,397 | -do- |
| 4 | Zahid Mir | EG-9A | Chief Operating Officer | 1,783,242 | - | - | No salary band prescribed for regular employee |
| 5 | Irteza Ali Qureshi | EG-9A | Chief Financial Officer | 1,702,185 | - | - | -do- |

**Annex-5(i)**

**(Para 2.2.6.60)**

**(i) Non-recovery of House Building Loan – Rs 67.445 million**

| Sr. No. | Employee No. | Name of employee | Balance as on June 30, 2019 (Rs) | Date of in-activation / last recovery |
|---|---|---|---|---|
| 1 | G3140G | Iftikhar Ahmed, Security & F/F | 203,153 | July, 2017 |
| 2 | 11399E | Darya Khan, Exploration | 1,024,455 | December, 2017 |
| 3 | 11774D | Muhammad Hussain, Drilling | 733,855 | April, 2018 |
| 4 | S0617J | Muhammad Ibrahim, Security & F/F | 1,205,986 | April, 2018 |
| 5 | S7192F | Zafar Ahmed Siddiqui, Production | 212,696 | April, 2018 |
| 6 | 11068I | Rizwan Ullah, Administration | 1,948,550 | May, 2018 |
| 7 | S0438G | Muhammad Naeem, Drilling | 1,051,049 | May, 2018 |
| 8 | 14325C | Anwar Ali Khan, Security & F/F | 2,109,221 | June, 2018 |
| 9 | S8155G | Najam Ul Hassan Shah, Store | 685,542 | June, 2018 |
| 10 | S8721C | Khawar Saeed, G & R Laboratory | 442,305 | June, 2018 |
| 11 | 13643H | Bakhat Ali, Security & F/F | 2,296,040 | August, 2018 |
| 12 | S9503A | Wahid Dino, Workshop | 974,504 | August, 2018 |
| 13 | 11975E | Samina Mehnaz, Communication | 425,871 | September, 2018 |
| 14 | S8625J | Basharat Khan, Exploration | 140,610 | September, 2018 |
| 15 | 10828E | Siraj Ahmed Shah, Accounts | 2,244,457 | November, 2018 |
| 16 | G3568G | Munawar Hussain, Lab Tech. | 45,289 | November, 2018 |
| 17 | S0678I | Ranoo, Exlpoitation | 37,130 | November, 2018 |
| 18 | 10009H | Naeem Akhtar, Geol Well Sup Div | 1,835,863 | December, 2018 |
| 19 | 10511G | Fazal Usman, G & R Laboratory | 2,741,180 | December, 2018 |
| 20 | 10535E | Maqbool Hussain Malik, Production | 3,459,758 | December, 2018 |
| 21 | 11580B | Muhammad Sadiq, Production | 2,768,100 | December, 2018 |
| 22 | 11681J | Atta Muhammad, Laboratory | 1,590,871 | December, 2018 |
| 23 | G3625I | Aslam Ellahi, Engineering Partie | 63,149 | December, 2018 |
| 24 | S0125I | Muhammad Hassan, Administration | 525,353 | December, 2018 |
| 25 | S0163E | Muhammad Aslam, Corporate Affairs | 383,122 | December, 2018 |
| 26 | S0373E | Kamran Mirza, Rig Maintenance | 373,440 | December, 2018 |
| 27 | S0809B | Ikhlaq Ahmad, Medical Centre | 405,962 | December, 2018 |
| 28 | S0911I | Fayyaz Hussain, Communication | 1,323,118 | December, 2018 |

| 29 | S0954J | Syed Muhammad Abbas Shah, Store | 1,322,834 | December, 2018 |
|---|---|---|---|---|
| 30 | S6500J | Shah Nawaz, Security & F/F | 4,620,700 | December, 2018 |
| 31 | S6930D | Sh. Mohammad Shafiq, G & R Laboratory | 398,690 | December, 2018 |
| 32 | S7639B | Ashraf Khan, Production | 164,981 | December, 2018 |
| 33 | S8631D | Hakim Khan, Production | 529,883 | December, 2018 |
| 34 | S8944B | Mohammad Shabbir, Personal Division | 569,365 | December, 2018 |
| 35 | S8959A | Mohammad Tariq, H.R. | 734,763 | December, 2018 |
| 36 | S9715A | Khalil Ur Rehman, Expl Prospect Gen | 92,903 | December, 2018 |
| 37 | S9965G | Saleem Masih, O G T I | 447,954 | December, 2018 |
| 38 | 11145I | Ghulam Muhammad, Exploration | 216,254 | January, 2019 |
| 39 | 12327I | Ghulam Shabbir Channa, Store | 3,291,324 | January, 2019 |
| 40 | 10526F | S Hammad Hussain Shah, Human Resource | 2,952,434 | February, 2019 |
| 41 | 13033F | Murad Ali, Engineering | 1,138,440 | February, 2019 |
| 42 | S5509C | Tariq Mehmood, Security & F/F | 1,404,927 | February, 2019 |
| 43 | 10132H | Muhammad Amir, Exploration | 492,480 | March, 2019 |
| 44 | 10179I | Shah Nawaz, Administration | 463,807 | March, 2019 |
| 45 | 11041F | Abdullah, Laboratory | 835,428 | March, 2019 |
| 46 | S7199A | Liaqat Hussain, Base Store Iba | 111,552 | March, 2019 |
| 47 | 11219J | Khizar Hayat, Security & F/F | 168,055 | April, 2019 |
| 48 | G3477C | Khalil Ullah, Pet Drill | 3,828,428 | April, 2019 |
| 49 | 11728D | Abdul Rauf, Production | 3,097,024 | May, 2019 |
| 50 | 11782H | Jameel Ahmed Kaleemullah, Production | 3,944,615 | May, 2019 |
| 51 | 13331E | Abdul Rehman, Stores | 1,552,372 | May, 2019 |
| 52 | 13483H | Tahir Masood Niazi, Clear & Foreward | 2,982,137 | May, 2019 |
| 53 | S0929C | Shafi Ur Rehman, Administration | 337,651 | May, 2019 |
| 54 | S7069F | Abdul Ghani, Administration | 11,828 | May, 2019 |
| 55 | S9626G | Talib Hussain, Geol Well Sup Div | 483,991 | May, 2019 |
| | | **Total** | **67,445,449** | |

**Annex-5(ii)**

**(Para 2.2.6.60)**

## (ii) Non-recovery of house rent advance from terminated employees – Rs 7.066 million

| Sr. No. | Employee No. | Name of Employee | Balance as on June 30, 2019 (Rs) | Remarks |
|---|---|---|---|---|
| 1 | 100953 | Muhammad Hassan Mustafa, Petroserev-Drilling | 277,965 | Suspended |
| 2 | 101942 | Khurshid uz Zafar, Exploration / Prospect Gen | 646,749 | -do- |
| 3 | 103537 | Azhar Ali Azhar, Admin | 1,314,696 | -do- |
| 4 | 103591 | Major (R) Matloob Baig, Security | 1,129,816 | -do- |
| 5 | 301201 | Liaqat Ali, Helper Cl-IV | 178,255 | -do- |
| 6 | 210168 | Muhammad Ismail, Admin | 156,336 | -do- |
| 7 | 210511 | Fazal Usman, G&R Laboratory | 62,162 | - |
| 8 | 214246 | Ghulam Din Tahir,Motor Transport | 98,736 | -do- |
| 9 | 214676 | Shakir Abbasi, JV | 586,880 | -do- |
| 10 | 207127 | Muhammad Ramzan, Drilling | 280,458 | -do- |
| 11 | 214401 | Muhammad Ejaz, logistic | 67,311 | -do- |
| 12 | 208116 | Muhammad Siddique, Motor Transport | 2,266,656 | -do- |
| | | **Total** | **7,066,024** | |

**Annex-6**

**(Para 2.4.6.4)**

## Non-recovery of outstanding balances from customers - Rs 586.401 million

(Rs in million)

| Sr. No. | DP No. | Name of office | Amount |
|---|---|---|---|
| 1 | 280 | Division Office, PSO, Bahawalpur | 1.060 |
| 2 | 289 | Division Office, PSO, Sahiwal | 1.658 |
| 3 | 367 | PSO Divisional Office Peshawar | 0.767 |
| 4 | 618 | Divisional Office, D.I Khan | 3.837 |
| 5 | 749 | Karachi office | 14.614 |
| 6 | 756 | Karachi office | 223.658 |
| 7 | 806 | Karachi office | 270.943 |
| 8 | 807 | Karachi office | 69.864 |
| | | **Total** | **586.401** |

**Annex-7**

**(Para 2.4.6.15)**

**Non-realization of distribution margin for non-upliftment of POL products by the outlets - Rs 1,165.27 million**

(Rs in million)

| Sr. No. | DP No. | Name of office | No. of cases | Amount of distribution margin |
|---|---|---|---|---|
| 1 | 287 | Divisional Office, PSO, Sahiwal | 95 | 441.43 |
| 2 | 291 | Divisional Office, PSO, Jehlum | 198 | 185.72 |
| 3 | 294 | Division Office, PSO, D.I.Khan | 13 | 44.06 |
| 4 | 621/K | SGM Supply Chain PSOCL | 87 | 490.81 |
| 5 | 752/k | SGM Supply Chain, Karachi (non-encashed security deposits) | 54 | 3.25 |
| | | **Total** | **447** | **1,165.27** |

**Annex-8**

**(Para 2.4.6.16)**

## Non-imposition of penalty on outlets - Rs 169.79 million

(Rs in million)

| Sr. No. | DP No. | Name of office | No. of cases | Amount of Penalty |
|---|---|---|---|---|
| 1 | 331 | Division Office, PSO, D.I.Khan | 76 | 16.14 |
| 2 | 334 | Division Office, PSO, D.I.Khan | 4 | 23.95 |
| 3 | 366 | Division Office, PSO, D.I.Khan (Short Quantity) | 71 | 0 |
| 4 | 369 | Division Office, PSO, D.I.Khan | 41 | 21.93 |
| 5 | 620/K | SGM Supply Chain PSOCL (short quantity) | 39 | 94.77 |
| 6 | 689/K | Division Office, PSO, D.I.Khan | 13 | 13 |
| | | **Total** | **244** | **169.79** |

**Annex-9**

**(Para 2.5.6.1)**

## Non-Production of record of SNGPL

| Sr. No. | Requisition No. | Sr. No. of requisition | Description of Record/ information |
|---|---|---|---|
| 1 | 01 | 14 | Contractor Day Book/ party wise ledger (Company level or Department-wise) along with supporting vouchers; (Vouchers not provided). |
| 2 | 01 | 51 | UFG Reports for the year 2018-19. |
| 3 | 01 | 65 | Case file regarding procurement / installation of telecommunication equipment i.e. DMC exchange, structure cabling, pressure transmitters, differential pressure transmitter, UHF Mobile base with Antenna and Multipoint Video Conferencing System and Telephone Exchange etc. for Abbottabad. |
| 4 | 02 | 34 | Details of deferral account with OGRA and adjustment for energy equivalence on account of swap of RLNG / System gas for the FY 2018-19, 2017-18, 2016-17 and 2015-16. |

**Annex-10**

**(Para 2.5.6.2)**

**Statement showing details of unjustified increase in HR cost from 2010-11 to 2018-19**

(Rs in million)

| | **2010-11** | **2011-12** | **2012-13** | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-18** | **2018-19** | **Total** | **Incr-ease %** | **Incre-ase in HR cost** | **Unjust-ified increase** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Base Cost of HR | 7,370 | 7,370 | 8,251 | 8,949 | 9,714 | 10,273 | 11,034 | 12,168 | 13,651 | 88,780 | 106 | 57,197 | 31,583 |
| CPI (50%) | - | 406 | 304 | 387 | 220 | 147 | 230 | 238 | 287 | 2,219 | - | 2,219 | - |
| T&D Net-work (25%) | 1,842 | 1,991 | 2,155 | 2,311 | 2,507 | 2,667 | 2,952 | 3,348 | 3,629 | 23,402 | 61 | 14,275 | 9,127 |
| Number of consu-mers (65%) | 4,790 | 5,098 | 5,727 | 6,196 | 6,650 | 7,023 | 7,740 | 8,743 | 9,314 | 61,281 | 53 | 32,479 | 28,802 |
| Sales Volume (10%)* | 737 | 756 | 763 | 821 | 897 | 1,197 | 1,246 | 1,327 | 1,351 | 9,095 | 50 | 4,548 | 4,548 |
| IAS Cost | - | - | - | - | 152 | 903 | 690 | 1,306 | 625 | 3,676 | - | 3,676 | - |
| | **7,369** | **8,251** | **8,949** | **9,715** | **10,426** | **11,937** | **12,858** | **14,962** | **15,206** | **-** | **-** | **-** | **-** |

* sales including both the Indigenous Gas and RLNG

**Annex-11**

**(Para 2.5.6.16)**

## Non-recovery of gas charges from active and disconnected consumers / defaulters – Rs 58,049.65 million

(Rs in million)

| Sr. No. | DP No. | Name of formation | Subject | Total |
|---|---|---|---|---|
| 1 | 305 | RM, Mardan SNGPL | Loss due to non-recovery of gas charges within stipulated time period | 15.84 |
| 2 | 306 | RM, Mardan SNGPL | Weak internal control--non-recovery of outstanding dues | - |
| 3 | 307 | RM, Mardan SNGPL | Non-recovery of full current gas bill (excluding amount of GIDC) from active consumer | 103.05 |
| 4 | 308 | RM, Mardan SNGPL | Non-recovery of decreed amount from the defaulting consumers | 3.18 |
| 5 | 309 | RM, Mardan SNGPL | Non-recovery of full current gas bill (excluding the amount of GIDC) from active industrial consumer-undue favour to industrial consumers | 1,942.12 |
| 6 | 316 | GM (West), Regional Office, SNGPL, Lahore | Non-recovery of gas charges from active consumers | 528.37 |
| 7 | 319 | RM, Mardan SNGPL | Loss of Government revenue due to non-recovery of arrears from customers | 96.91 |
| 8 | 326 | Divisional Manager SNGPL, Abbottabad | Non-recovery of gas charges from consumers | 248.92 |
| 9 | 327 | Divisional Manager SNGPL, Abbottabad | Non-recovery of outstanding dues from Government department | 17.99 |
| 10 | 330 | GM (West), Regional Office, SNGPL, Lahore | Non-recovery of tampering / pilfered gas charges etc. from various consumers | 1,344.48 |
| 11 | 364 | GM (West), Regional Office, SNGPL, Lahore | Loss due to non-recovery of gas charges from disconnected consumers | 2,601.80 |
| 12 | 390 | RM, Mardan SNGPL | Non-recovery of arrear from customers whose meters were disconnected or reconnected on their own requests | 1.17 |

| | | | | |
|---|---|---|---|---|
| 13 | 476 | SGM (D. South) SNGPL | Re-connection of industrial consumers without recovery of outstanding amount | 780.17 |
| 14 | 477 | SGM (D. South) SNGPL | Non-recovery of outstanding amount from disconnected commercial consumers | 721.78 |
| 15 | 478 | SGM (D. South) SNGPL | Non-recovery of outstanding amount from disconnected industrial consumers | 70.20 |
| 16 | 510 | SNGPL (HO) | Non-recovery of decreed amount in 1,162 cases due to non-attachment of assets | 519.43 |
| 17 | 523 | SNGPL (HO) | Non recovery of gas charges from disconnected consumers | 2,051.44 |
| 18 | 544 | SNGPL | Inactive pursuance of pending recovery suits filed by SNGPL in the court of law | 3,415.46 |
| 19 | 552 | SNGPL | Non-recovery of gas charges from active consumers | 42,757.87 |
| 20 | 724 | GM Distribution SNGPL | Non-recovery of decreed amount from the defaulting consumers | 9.67 |
| 21 | 315 | SNGPL Lahore (West) | Non-disconnection of gas consumers having security shortfall | 20.08 |
| 22 | 490 | SNGPL Multan & Faisalabad regions | Shortfall in security deposit of consumers | 43.94 |
| 23 | 543 | SNGPL HO, Lahore | Shortfall in security deposit of industrial and commercial gas consumers | 755.78 |
| | | | **Total** | **58,049.65** |

**Annex-12**

**(Para 2.5.6.56)**

## Need to streamline corporate governance and tax compliance besides improving observance of company manuals - Rs 186.693 million

(Rs in million)

| Sr. No. | DP No. | Subject | Remark | Amount |
|---|---|---|---|---|
| 1 | 858 | Non-recovery of outstanding amount from employees | Loan and company loss was not recovered from dismissed/retired employees | 9.57 |
| 2 | 774 | Inadmissible payment of pay and allowance during leave period | Salaries of employees were not stopped during leave period. | 6.60 |
| 3 | 778 | Non-deduction of Conveyance Allowance from salaries of employees - | Non-deduction of conveyance allowance-pick & drop provided | 3.15 |
| 4 | 482&496 | Un-justified expense on hiring of vehicles due to inappropriate utilization/ under-utilization of company owned vehicles | Hired vehicles were used on rent despite availability of company vehicles which requires revisiting and rationalization of hiring policy for vehicles. | 25.81 |
| 5 | 768 | Non-payment of sales tax on gas used in domestic colonies | Company provided free gas facility to its employees but sales tax under section 3 of Sales Tax Act, 1990 was not paid on the value of gas free supplied. | 15.20 |
| 6 | 528 | Exploitation of casual labour by availing service without remuneration | The amount pointed in this para is in respect of 457 employees. The amount would be Rs 43.425 million (2386*28*650) if also calculated in respect of remaining 2386[(2843-457 (pointed in para)] employees. | 7.59 |
| 7 | 772 | Non booking of HR cost under correct expense head | Non-booking of driver salary and C.F.C Fuel expense under HR cost | 6.02 |
| 8 | 531&721 | Non-claim of input adjustment of sales tax paid on electricity bills | Non-booking of sales tax paid on electricity bills and non-claim of input adjustment | 11.98 |

| 9 | 848 | Burden on consumer due to irrational accommodation policies | Irrational deduction against allotted accommodation policies | 44.21 |
|---|---|---|---|---|
| 10 | 488 | Over-payment to contractor on excess quantity of work order | Over-payment to contractors on higher rate than approved in work order | 4.4 |
| 11 | 775 | Loss due to sale of two vehicles to the same employee against company policy | Sale of two company vehicles to one employee on retirement. | 1.17 |
| 12 | 781 | Over payment of gratuity against company rules | Excess payment of gratuity due to grant of extra increment who have not complete 6 months services. | 1.36 |
| 13 | 784 | Recurring loss due to non-framing of SOP for granting NOC | SOP for NOC to be issued to other agencies for crossing ROW and Pipeline | 0 |
| 14 | 392 & 785 | Increase in UFG losses due to non-billing to consumers | Non / late billing to new consumers | 8.45 |

**Annex-13**

**(Para 2.6.6.16)**

**Non-recovery of outstanding amount from customer / defaulters Rs 20,012.96 million**

| Sr. No. | DP No. | Subject | Total | Remarks | No of cases |
|---|---|---|---|---|---|
| 1 | 400 | Non-recovery of outstanding amount from CNG customers defaulters | 248.14 | Recovery | 10 |
| 2 | 401 | Non-recovery of outstanding amount from Industrial customers defaulters | 213.76 | Recovery | 12 |
| 3 | 402 | Non-recovery of outstanding amount from domestic (Bulk) customers defaulters | 103.97 | Recovery | 1,548 |
| 4 | 417 | Non- recovery of outstanding amount from captive power customers defaulters | 1,374.99 | Recovery | 12 |
| 5 | 584 | Non-recovery of outstanding amount from commercial consumers defaulters | 40.29 | Recovery | 378 |
| 6 | 585 | Non-recovery of outstanding amount from domestic (Bulk) customers defaulters | 289.18 | Recovery | 1,250 |
| 7 | 604 | Short realization of Gas charges | 2,724.56 | recovery | 5 |
| 8 | 737 | Short recovery of principal amount from M/s K electric | 13,031.14 | Recovery | 1 |
| 9 | 202 | Non-recovery of Insurance Claims | 11.94 | Recovery | 1 |
| 10 | 204 | Non-recovery of outstanding dues from Zonal offices due to non-allocation of adequate resources | - | Recovery | 1 |
| 11 | 209 | Non-recovery of gas dues from Government & Bulk defaulters | 269.00 | Recovery | 1,152 |
| 12 | 210 | Non-recovery of outstanding amount from Commercial defaulters | 65.00 | Recovery | 870 |
| 13 | 211 | Non-recovery of outstanding amount from Domestic defaulters | 1,641.00 | Recovery | 52,331 |
| | | **Total** | **20,012.96** | | |