



**AUDIT REPORT  
ON  
THE ACCOUNTS OF  
PETROLEUM DIVISION  
AND  
OIL AND GAS REGULATORY  
AUTHORITY  
AUDIT YEAR 2022-23**

**AUDITOR-GENERAL OF PAKISTAN**



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## ABBREVIATIONS AND ACRONYMS

AGP	Auditor-General of Pakistan	EIC	Engineer In-Charge
		EOBI	Employees Old Age Benefits Institution
AGPR	Accountant General Pakistan Revenue	EOU	Export Oriented Unit
BBLs	Billions of Barrels	ERP	Enterprise Resource Planning
BoD	Board of Directors	ERR	Estimated Revenue Requirement
BoM	Board of Management	ESG	Executive Staff Grade
BTU	British Thermal Unit	EVC	Electronic Volume Correctors
CC&B	Customer Care & Billing	FCF	Federal Consolidated Fund
CCI	Council of Common Interests	FE-25	Foreign Exchange-25
CCLC	Cabinet Committee for the disposal of Legislative Cases	FOTCO	Fauji Oil Terminal & Distribution Company Ltd.
CCoE	Cabinet Committee on Energy	FRR	Final Revenue Requirement
CEO	Chief Executive Officer	FTO	Federal Treasury Officer
CGA	Controller General of Accounts	FY	Financial Year
CMS	Consumer Meter Station	GD	Goods Declaration
CNG	Compressed Natural Gas	GDS	Gas Development Surcharge
CPF	Central Provident Fund	GFR	General Financial Rules
		GHPL	Government Holdings Private Ltd.
CPPs	Captive Power Plants	GIC	Gas Internally Consumed
CSR	Corporate Social Responsibility	GIDC	Gas Infrastructure Development Cess
DCOs	District Coordination Officers	GM	General Manager
DCs	Deputy Commissioners	GoP	Government of Pakistan
DDWP	Department Development Working Party	GPA	Gas Price Agreement
DG (LGs)	Director General Liquified Gases	GSA	Gas Sales Agreement
DNPL	Demand Notice Proposal Letter	GSP	Geological Survey of Pakistan
DoE	Department of Explosives	GSPA	Gas Sales and Purchase Agreement
DUC	Dispensing Unit Control	HDIP	Hydrocarbon Development Institute of Pakistan
E&P	Exploration & Production		
ECC	Economic Coordination Committee	HHU	Hand-Held Unit

HoD	Head of Department	MMBTU	Metric Million British Thermal Unit
HR	Human Resources	MMCF	Million Cubic Feet
HSD	High Speed Diesel	MMCFD	Million Cubic Feet per day
HSFO	High Sulphur Furnace Oil	MoE - PD	Ministry of Energy-Petroleum Division
IAS	International Accounting Standards	MPCL	Mari Petroleum Company Ltd.
IFEM	Inland Freight Equalization Margin	MSPA	Master Sales Purchase Agreement
IGM	Import General Manifest	MT	Metric Tons
IP	Iran Pakistan	NBP	National Bank of Pakistan
IPPs	Independent Power Producers	NEECA	National Energy Efficiency & Conservation Authority
IRR	Internal Rate of Return	NHA	National Highway Authority
ISGS	Inter State Gas System	NICL	National Insurance Company Ltd.
JOA	Joint Operating Agreement	NIRC	National Industrial Relation Commission
JV	Joint Venture	NLC	National Logistics Cell
KAPCO	Kot Addu Power Company	NMP	National Mineral Policy
KIBOR	Karachi Interbank Offered Rate	NOCs	No Objection Certificates
KMI	Key Monitoring Indicator	NRL	National Refinery Ltd.
KPD	Kunnar-Passaki Deep	NTDC	National Transmission & Despatch Company
KPI	Key Performance Indicator	OCAC	Oil Companies Advisory Council
KP	Khyber Pakhtunkhwa	OEM	Original Equipment Manufacturer
KPOGCL	Khyber Pakhtunkhwa Oil & Gas Company Ltd.	OGDCL	Oil and Gas Development Company Ltd.
LCIA	London Court of International Arbitration	OGTI	Oil & Gas Training Institute
LMKR	LMK Resources Private Ltd.	OSA	Operation and Service Agreement
LNG	Liquefied Natural Gas	PAC	Public Accounts Committee
LOI	Letter of Intent	PAO	Principal Accounting Officer
LPG	Liquefied Petroleum Gas	PCA	Petroleum Concession Agreement
LPS	Late Payment Surcharge	PD	Petroleum Division
LSA	LNG Service Agreement	PDCs	Price Differential Claims
MFDAC	Memorandum for Departmental Accounts Committee	PEL	Petroleum Exploration Private Ltd.

PERAC	Petroleum Refining and Petrochemical Corporation	SEZ	Special Economic Zone
PERs	Performance Evaluation Reports	SGM	Senior General Manager
PGPCL	Pakistan Gas Port Consortium Ltd.	S.R.O.	Statutory Regulatory Order
PLL	Pakistan LNG Ltd.	SKO	Superior Kerosene Oil
PLTL	Pakistan LNG Terminal Ltd.	SML	Saindak Metal Ltd.
PMDC	Pakistan Mineral Development Corporation	SMP	Smart Metering Project
PFM	Public Financial Management	SMS	Sales Meter Station
PNR	Petroleum and Natural Resources	SNGPL	Sui Northern Gas Pipelines Ltd.
PO	Purchase Order	SOEs	State Owned Entities
POL	Petroleum, Oil and Lubricant	SOPs	Standard Operating Procedures
PPL	Pakistan Petroleum Ltd.	SPA	Sale and Purchase Agreement
PPRA	Public Procurement Regulatory Authority	SSGC	Sui Southern Gas Company
PRL	Pakistan Refinery Ltd.	SSG	Support Staff Grade
PRM	Product Review Meetings	SWF	Social Welfare Fund
PRM	Product Review Meetings	T&D	Transmission and Distribution
PSDP	Public Sector Development Programme	TAPI	Turkmenistan Afghanistan Pakistan India Pipeline
PSEs	Public Sector Enterprises	TBS	Town Border Stations
PUG	Passing Unregistered Gas	TCF	Trillion Cubic Feet
QP	Qatar Petroleum	ToRs	Terms of References
RFO	Residual Furnace Oil	UAE	United Arab Emirates
RLNG	Re-gasified Liquefied Natural Gas	UFG	Un-accounted For Gas
ROW	Right of Way	USD	United States Dollar
RPCs	Royalty Processing Charges	WACOG	Weighted Average Cost of Gas
RTO	Regional Tax Office	WLO	Windfall Levy on Oil
SAP	System Application and Product		
SBLC	Standby Letters of Credit		
SECP	Securities and Exchange Commission of Pakistan		



## 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.

The Report is based on audit of the accounts of Petroleum Division and Oil and Gas Regulatory Authority for the financial year 2021-22. The Director General Audit, Petroleum and Natural Resources, Lahore, conducted audit during audit year 2022-23 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 issues and material audit findings. Sectoral analysis has been added in this report covering strategic review that presents an overall perspective of audit results. Relatively less significant issues have been listed in the **Annexure-1** as MFDAC and will be pursued with the relevant Principal Accounting Officers of the Divisions at Departmental Accounts Committee level and in significant cases where the PAOs do not initiate appropriate action, the audit observations will be brought to the notice of PAC through next year audit report.

Thematic Audit - a new concept, has been introduced and made part of this report at Chapter-4. It is an attempt to improve organization's performance through critically reviewing its business processes to identify those risks which are hindering it from achieving its intended objectives.

Audit findings indicate the need for adherence to the regularity framework besides instituting and strengthening internal controls to avoid recurrence of similar violations and irregularities.

This Report has been finalized in light of the discussions in the DAC meetings and written responses of the Divisions / PSEs.

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-

Islamabad  
Dated: February 25, 2023

(Muhammad Ajmal Gondal)  
Auditor-General of Pakistan



## **EXECUTIVE SUMMARY**

The Director General Audit, Petroleum and Natural Resources, Lahore carries out audit and evaluation of Ministry of Energy (Petroleum Division), Public Sector Enterprises under the Petroleum Division and Oil & Gas Regulatory Authority under Cabinet Division.

DG Audit, has a human resource of 85 officers and staff which spent 20,922 man days in carrying out the audit. The annual budget for the audit activities amounted to Rs 169.274 million during the financial year 2022-23. This report contains results of audit inspection and evaluation of financial performance of entities under the audit jurisdiction of this office for the financial year 2021-22.

### **a. Scope of Audit**

This office is mandated to conduct audit of revenue and expenditure of Ministry of Energy (Petroleum Division), 14 Public Sector Enterprises / Departments under this Ministry comprising of 109 formations and Oil & Gas Regulatory Authority under Cabinet Division. The total financial outlay of Petroleum Division and PSEs was Rs 9,161.412 billion and Non-Tax Receipts was Rs 296.071 billion for the financial year 2021-22 (Annexure-2).

Audit coverage relating to expenditure for the current audit year comprises 51 formations of Ministry of Energy (Petroleum Division), 9 Public Sector Enterprises / Departments and one formation of Oil & Gas Regulatory Authority under Cabinet Division having a total financial outlay of Rs 8,792.229 billion for the financial year 2021-22 which, in terms of percentage, is 96%.

Audit coverage relating to receipts for the current audit year comprises 4 formations of Ministry of Energy (Petroleum Division) having total Non-Tax Receipts of Rs 296.071 billion for the financial year 2021-22.

Thematic Audits of Quality of Service Delivery by Gas Utility Companies and Effectiveness of OGRA Licensing Regime regarding Petroleum Products have also been included in this audit report to identify areas affecting performance of these formations.

In addition to this Compliance Audit Report, this office also conducted two Financial Attest Audits and one Special Study. Report of this Special Study is being published separately.

#### **b. Recoveries at the Instance of Audit**

As a result of audit, a recovery of Rs 1,103.216 billion has been pointed out in this report. Recovery effected from January to December, 2022 on pointation of Audit is Rs 253.443 billion which has been duly verified by Audit.

#### **c. Audit Methodology**

The audit exercise for the FY 2021-22 started with audit planning and updating 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. Accordingly, high risk areas of financial and managerial significance with reference to each entity were identified. Government regulations / BoD proceedings and other events related to the audited organizations were used as reference. Audit tools and procedures were applied keeping in view the nature of transactions, accounting standards and best auditing practices. The audit exercise was conducted on the basis of sample selection from various categories of expenditures and receipts in accordance with the guidelines provided in Financial Audit Manual.

#### **d. Audit Impact**

This audit contributed towards improving financial transparency, internal controls and efficient project management in the auditee organizations through its findings. Management's adherence to competitive procurement processes, transparent recruitments, effective fund utilization and better service delivery were reinforced and further strengthened on pointation of Audit. The following incidents may be quoted as audit impact:

- On pointation of Audit, PLL's bid document for subsequent tenders have been amended to include the Clause for award of contract to the second lowest bidder, in case lowest bidder withdraws its bid. [DP No. 1566 of FY 2020-21]

- Ministry of Energy (Petroleum Division) issued new Guidelines, “Management and Utilization of Training Fund 2020” to streamline utilization of Training Fund on pointation by Audit. As per new Guidelines, 30% of the obligation shall be deposited by the E&P company in respective Provincial Energy Department’s Training Fund Account which shall be used for training and capacity building. [Para Nos. 2.4.24 & 2.1.7.23 of Audit Reports 2017-18 & 2019-20]
- DG (Oil) did not reconcile the receipts relating to Development Surcharge on Petroleum / Petroleum Levy booked by AGPR which were being booked under wrong head B-03041. On pointation of Audit, the receipts of Rs 10.476 billion in the relevant financial year were booked under correct head of account C-03901. [ Para No. 1.2.1 of Audit Report 2020-21]
- Under the Pakistan Petroleum Products (Development Surcharge) Ordinance, 1961 there was no provision for charging the markup on the late payment of Petroleum Levy by the companies. However, on the consistent pointation by the Audit, Clause for markup on late payment of Petroleum Levy has been incorporated in the Public Financial Management Act, 2019. [Para No. 2.4.7 of AR 2015-16 (NTR)]
- On pointation of Audit, Ministry and PSEs reported that an amount of Rs 80,080.864 million had been recovered and DAC also directed to expedite the recovery of Rs 470,068.520 million relating to paras issued during audit year 2022-23.

**e. Comments on Internal Controls and Internal Audit Department**

Internal controls in any organization comprise policies, procedures, rules, regulations, and monitoring mechanisms etc. These controls help in preventing fraud, waste, and enhance value for money, efficiency and transparency in the processes 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 respective management accordingly.

Financial management in Ministry of Energy (Petroleum Division) was deficient owing to absence of mechanism for assessment / collection of non-tax receipts, recovery of arrears of GDS, GIDC, Petroleum Levy and Royalties. The

management relied only on the information provided by the companies relating to due receipts.

In case of OGDCL, PSO, PPL, SNGPL, SSGC, PLL and PMDC, financial and internal controls lapses were noticed in various procurements. Recurrent violations of Public Procurement Rules leading to wastage of company's resources were observed. It was also noticed that the project management was one of the weaker areas in PSEs. For example, in case of OGDCL and SNGPL multiple projects were either time or cost overrun or could not achieve their stated targets. Further, OGRA failed to monitor development of storage facilities by the OMCs and could not enforce compliance to its regulations by licensees.

It was noticed that audited annual accounts of 8 Public Sector Enterprises / Authority (6 pertaining to the financial year 2021-22 and 2 to the previous years) were not finalized within stipulated time and provided to Audit by the prescribed date i.e., December 31, 2022 (Annexure-3).

#### **f. Key Audit Findings**

- i. Non-production of record by OGRA relating to its regulatory functions was reported;<sup>1</sup>
- ii. Accumulation of huge receivables of Rs 570,195.111 million due to non-resolution of inter corporate circular debt;<sup>2</sup>
- iii. PSEs failed to recover outstanding dues of Rs 130,973.475 million from customers;<sup>3</sup>
- iv. SNGPL failed to recover cost of RLNG withheld by SSGC amounting to Rs 47,524 million;<sup>4</sup>
- v. Misuse of concessionary tariff of Rs 21,519.460 million of RLNG by 277 EOUs for non-export operations;<sup>5</sup>

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<sup>1</sup> Para 3.1.4.1

<sup>2</sup> Paras 2.3.4.3, 2.4.4.2, 2.5.4.5 & 2.6.4.4

<sup>3</sup> Paras 2.4.4.1, 2.5.4.6 & 2.7.4.3

<sup>4</sup> Para 2.5.4.4

<sup>5</sup> Para 2.5.4.21

- vi. Petroleum Division did not recover Royalty of Rs 17,348.223 million from E&P companies;<sup>6</sup>
- vii. SNGPL diverted RLNG of Rs 16,217 million to domestic sector in summer months in violation of winter load management and priority order set by GoP;<sup>7</sup>
- viii. Gas utility companies failed to complete gas development schemes / jobs within stipulated time - Rs 15,030.490 million;<sup>8</sup>
- ix. SNGPL granted excess subsidy of Rs 10,805.045 million to EOUs due to supply of excess gas than approved contractual load;<sup>9</sup>
- x. GHPL did not deposit sale proceeds of Rs 1,364.836 million relating to permanent installation of depleted gas field into Government Treasury;<sup>10</sup>
- xi. OGDCL failed to timely install submersible pumps on production wells which caused loss of production of hydrocarbon worth Rs 1,362.914 million;<sup>11</sup>
- xii. OGDCL did not rationalize operational expenditure of Rs 654.625 million at three depleted fields;<sup>12</sup>
- xiii. OGRA did not deposit surplus of receipts over expenditure and fines & penalties amounting to Rs 487.478 million in Federal Consolidated Fund;<sup>13</sup> and
- xiv. SNGPL unauthorizedly kept Government funds in commercial banks in violation of Assignment Account Procedure and did not surrender saving / interest of Rs 266 million earned on these funds.<sup>14</sup>

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<sup>6</sup> Para 2.1.4.7

<sup>7</sup> Para 2.5.4.26

<sup>8</sup> Para 2.5.4.8

<sup>9</sup> Para 2.5.4.22

<sup>10</sup> Para 2.1.4.18

<sup>11</sup> Para 2.2.4.1

<sup>12</sup> Para 2.2.4.3

<sup>13</sup> Para 3.1.4.3

<sup>14</sup> Para 2.5.4.13

**g. Recommendations**

- i. Cabinet Division may take disciplinary action against the persons(s) responsible for non-production of record and ensure timely provision of record;
- ii. Petroleum Division may take up the matter with Federal Government for early resolution of ever increasing monstrous Circular Debt;
- iii. The management of respective organizations should strengthen the recovery mechanism besides recovering the outstanding dues from customers;
- iv. The management of SNGPL must effect recovery of RLNG cost from SSGC and resolve all outstanding disputes between the two PSEs;
- v. Petroleum Division may probe the matter for non-implementation of Finance / Petroleum Divisions' instructions / SOPs besides ensuring recovery proceedings against the EOUs availing subsidy without making any exports;
- vi. Petroleum Division may take steps for early recovery of Royalty;
- vii. The management may ensure implementation of ECC decision regarding gas priority order in connection with Natural Gas Allocation and Management Policy, 2005;
- viii. Petroleum Division may resolve the issue and ensure timely completion of gas development schemes;
- ix. SNGPL must ensure the supply of RLNG on concessionary rates to the extent of approved contractual load. The matter needs to be probed for extending undue benefit to EOUs besides effecting recovery;
- x. Petroleum Division must ensure recovery of sales proceeds from GHPL and deposit in Government Treasury;
- xi. The equipment must be installed on wells operated by OGDCL at the earliest to avoid further loss in production;
- xii. OGDCL must rationalize the expenditure of depleted fields to safeguard the interests of the organization;
- xiii. OGRA must ensure timely deposit of surplus receipts over expenditure and fines & penalties to the Federal Consolidated Fund; and
- xiv. Petroleum Division may probe violation of Assignment Account Procedure besides deposit of interest accrued in Government treasury.

## Sectoral Analysis

Ministry of Energy (Petroleum Division) administers Petroleum Sector under Rules of Business, 1973. It deals with policy formulation, legislation, planning regarding exploration, development and production, import and export of petroleum products, matters bearing international aspects and administration of the Petroleum Products and Natural Gas Ordinances, 1961 and 1967 respectively besides assisting Federal Government / Cabinet and its Committees in decision making. The sector holds a pre-eminent position in the economy of Pakistan due to the following salient features:

- i. With a foreign direct investment of Rs 41,389.929 million (US\$ 195.3 million) in FY 2021-22, the sector remained one of the leading sources of foreign direct investment;<sup>15</sup>
- ii. The sector raised significant amount of Non-Tax Revenue for the government amounting to Rs 296,071 million;<sup>16</sup> and
- iii. Imports of crude oil, LNG and other petroleum products during the FY 2021-22 remained Rs 4,756,872 million (US\$ 23,318 million).<sup>17</sup>

### Achievement against Targets

Petroleum Division measures its performance in terms of budget, geological surveys, exploration, production and distribution of oil and gas and other energy resources. A review of achievement of targets set in Medium Term Budgetary Framework (MTBF) for FYs 2020-21 and 2021-22 is tabulated below:

Sr. No.	Item	Unit	2020-21			2021-22		
			Target	Actual	% Achievement	Target	Actual	% Achievement
1	Domestic Production							
1.1	Crude Oil	M. B	30.00	27.00	90	28.690	26.80	93
1.2	Gas	TCF	1.43	1.27	88	1.287	1.23	96
1.3	LPG	M.T	753.05	764.77	101	760.941	782.36	103
2	No. of Wells drilled							
2.1	Exploratory	Nos.	44	13	29	44	27	61

<sup>15</sup> Pakistan Investment Board Data 2021-22

<sup>16</sup> Petroleum Division Receipts

<sup>17</sup> MOC data for FY 2021-22

2.2	Development	Nos.	36	15	41	54	29	54
<b>3</b>	<b>Gas Consumers Added</b>							
3.1	SNGPL	Nos.	405,450	262,206	64	303,050	54,405	18
3.2	SSGC	Nos.	125,245	70,687	56	134,276	76,349	57
<b>4</b>	<b>Gas Network / Transmission Extension by Gas Companies</b>							
4.1	SNGPL	Kms	6,291	2,947	46	1532	2327	152%
4.2	SSGC	Kms	1,206	593	49	1635	924	56%

(Source: Annual Plan 2021-22 and 2022-23 by Planning Commission and data provided by Petroleum Division)

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

### Position of Oil and Gas Reserves

#### Oil

Domestic production remained 27 million barrels against target of 29 million barrels, showing 90% achievement during FY 2021-22. According to Petroleum Division, out of total oil reserves of 1,245.06 million barrels, 1,012 million barrels had already been consumed thus leaving a balance of 232.51 million barrels of oil reserves in Pakistan.

#### Oil Reserves (million US Barrels) as on June 30, 2022

Province	Original Recoverable	Cumulative Production / Consumed	Balance Recoverable	% age of balance recoverable
Baluchistan	1.99	0.27	1.72	0.74
KP	248.86	182.28	66.57	28.64
Punjab	460.39	385.87	74.53	32.05
Sindh	533.82	444.13	89.68	38.57
<b>Total</b>	<b>1,245.06</b>	<b>1,012.55</b>	<b>232.51</b>	<b>100</b>

(Source: Data of Petroleum Division)

#### Gas

Pakistan had over 63.248 TCF reserves of natural gas, out of which around 43.736 TCF had already been consumed. According to Planning Commission, domestic production of gas during FY 2021-22 remained 1.237 TCF against the target of 1.287 TCF.

### Gas Reserves (TCF) as on June 30, 2022

Province	Original Recoverable	Cumulative Production / Consumed	Balance Recoverable	% age of balance recoverable
Baluchistan	20.693	15.466	5.227	26.79
KP	2.960	1.894	1.067	5.47
Punjab	4.036	2.414	1.621	8.31
Sindh	35.559	23.961	11.597	59.43
<b>Total</b>	<b>63.248</b>	<b>43.736</b>	<b>19.512</b>	<b>100</b>

(Source: Petroleum Division)

Natural gas forms one of the major components of country's energy mix with 33% of indigenous gas, 10% of RLNG and 1% LPG. Incremental increase of 5% per year in the demand for natural gas had already exhausted the limited indigenous gas reserves with the passage of time. Rapid depletion of existing reserves with no substantial new discovery since 2001 was one of the main reasons for ever-widening gap in demand and supply of natural gas in the country. Indigenous production is 1.23 TCF per annum (3,370 MMCFD) against demand of gas about 1.858 TCF<sup>18</sup> (5090 MMCFD) per annum in the country, thus, leaving a deficit of 0.628 TCF per annum (1,720 MMCFD). To make good the total shortfall of 0.628 TCF (1,720 MMCFD), 0.328 TCF (900 MMCFD) LNG was imported and injected in the system. Share of LNG in the natural gas supply had risen to 29% of the total supply of natural gas in the system. Currently, net shortfall of 0.30 TCF (820 MMCFD) of gas was either managed through curtailment / load management across different sectors of the economy or ultimately faced by general public.

### Minerals

In accordance with Article 172 of the Constitution of Islamic Republic of Pakistan, minerals other than nuclear minerals and those occurring in specified federal areas, fall under the purview of provinces. The Federal Government being responsible for formulation of national policies / plans promulgated National Mineral Policy, 2013 which necessitated the revamping of mineral sector and PMDC, the only federal entity involved in the exploration, mining and marketing of minerals. But NMP, 2013 was not implemented by DG (Mineral) / Petroleum Division and resultantly, revamping of PMDC could not be initiated.

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<sup>18</sup> Petroleum Industry Report - OGRA 2020-21

Production of main minerals i.e., salt and coal, was 2,435,929 Tons and 854,084 Tons respectively for the FYs 2020 to 2022<sup>19</sup>.

Major initiatives were taken by the Petroleum Division for the uplift of mineral sector of Pakistan includes a PSDP project under Public Sector Development Program 2022-23 and establishment of National Minerals Data Center through PSDP at cost of Rs 295 million to maintain data repository. Another PSDP project at cost of Rs 100 million was initiated to acquire Legal Consultancy Services for drafting of Model Mineral Agreement and updating of Regulatory Framework (Federal and Provincial Mineral / Coal Departments).

### **Issues in Ministry of Energy (Petroleum Division)**

Supply chain of Petroleum Sector is broadly divided into upstream, midstream and downstream segments. Upstream segment contains exploration and production (E&P) activities which include conducting geological surveys and obtaining land rights and production activities with regard to both onshore and offshore drilling. Midstream activities include the storage, processing and transportation of petroleum products. Downstream segment was closer to end users of petroleum products in the supply chain. Marketing and distribution of these products also fall under this category.

DG (PC) deals with E&P sector to formulate and implement the Petroleum Policies, E&P Rules and Petroleum Concession Agreements. Absence of an independent upstream regulator had resulted in in-ordinate delay in extension of leases, award, cancellation of blocks and allocations of oil and gas to buyers. E&P sector was confronted with multiple challenges that, inter-alia, include slow exploration and production of hydrocarbons, OGDCL being the largest E&P company could not achieve its own set targets (up to 53%) in last three years due to lack of proper project appraisal and defective performance evaluation system<sup>20</sup>. Adverse security conditions in the exploration areas caused extra cost, damage to assets and disruption of E&P activities. E&P variable costs of low and depleting reserves could not be rationalized over the years which resulted in recurrence of avoidable expenses<sup>21</sup>.

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<sup>19</sup> Data provided by PMDC

<sup>20</sup> Para 2.2.4.9

<sup>21</sup> Para 2.2.4.3

Multiple projects of E&P companies were delayed leading to cost over-run and non-achievement of set targets of production<sup>22</sup>. Production could not be enhanced due to non-installation of required equipment<sup>23</sup>. Further, unnecessary / unjustified procurements caused blockage of funds which ultimately led to wasteful expenses<sup>24</sup>. Off-spec / low BTU gas could not be sold due to less off-takes by purchasers / IPPs on the plea of not on merit order / priorities set by NTDC, resultantly huge volume of low BTU gas had been flared / wasted since last two years<sup>25</sup>.

Gas Sector circular debt had risen to Rs 947.873 billion and an amount of Rs 18.546 billion on account of sales of HSFO / HSD was receivable from power sector. Overall petroleum sector circular debt accumulated to Rs 966.429 billion as on June 30, 2022<sup>26</sup>. Due to non-availability of funds, E&P companies remained unable to accelerate exploration and production activities. Public Sector Enterprises i.e., OGDCL, PPL, PSO, and PLL working under Petroleum Division, were facing liquidity crunch due to huge circular debt piled up due to non / short payment by power sector companies. Apart from receivables from power sector, gas companies remained unable in making timely payments to aforesaid PSEs due to non-resolution of their disputes with each other, non-recovery of huge outstanding dues from industrial consumers, unpaid subsidies and other gas / RLNG supply chain issues<sup>27</sup>.

Gas sector related issues could not be resolved despite highlighting time and again rather these were worsening over the years which includes inter alia gas shortage due to ever widening demand and supply gap, unabated UFG losses especially of SSGC hovering around 17%<sup>28</sup>, and under-utilized LNG infrastructure ranging 250-300 MMCFD every year<sup>29</sup>. Gas shortage could have been mitigated by utilizing this idle capacity enabling import of LNG (up to 1200 MMCFD) but LNG procuring agencies i.e., PSO / PLL failed to arrange imports there-for and no long term contract either G2G or commercial basis were

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<sup>22</sup> Para 2.2.4.1 & 2.2.4.5

<sup>23</sup> Para 2.2.4.1

<sup>24</sup> Para 2.2.4.24

<sup>25</sup> AIR Para 2 (F-11/2021)

<sup>26</sup> Paras 2.3.4.3, 2.4.4.2, 2.5.4.5, 2.6.4.4 & 2.2.1(B)

<sup>27</sup> Paras 2.5.4.4, 2.5.4.5, 2.5.4.6, 2.5.4.7, 2.6.4.4, 2.6.4.5 & 2.6.4.6

<sup>28</sup> Para 2.6.4.1

<sup>29</sup> Para 2.7.4.8

executed and seemed unviable in near future due to high RLNG prices<sup>30</sup>. RLNG being costlier as compared to indigenous gas and most of consumers tend to use cheaper gas unless subsidized by Government. To cope with the demand supply issues, addressing the duality of legal regimes for indigenous gas and RLNG especially for pricing purpose was necessary and legislation relating to amendments in OGRA Ordinance, 2002 had been made in January / February, 2022 but the same could not be implemented yet. Resultantly, RLNG pricing could not be brought under the OGRA Ordinance, 2002 and WACOG for blended gas i.e. indigenous and RLNG was yet to be formulated<sup>31</sup>.

Due to weak contractual framework, disputes between two gas companies remained unresolved such as recovery of cost of RLNG withheld by SSGC (Rs 47 billion) prior to June, 2020, SSGC was claiming high UFG losses due to handling of RLNG volumes in its pipeline and Third Party Audit of UFG losses could not be finalized by OGRA<sup>32</sup>. Moreover, ECC issued guidelines for RLNG pricing and its components in May, 2018 but OGRA could not determine the final RLNG prices since inception of RLNG regime. In November, 2021, OGRA tasked SNGPL to ascertain RLNG price components which could not be done despite lapse of more than one year<sup>33</sup>.

Federal Government took multiple initiatives to mitigate gas shortage in winter and issued instructions to SNGPL for diversion of RLNG (which was initially meant for power / industrial sectors) to domestic sector on domestic tariff in winter months. SNGPL claimed the difference of RLNG price and domestic tariff of indigenous gas amounting to Rs 176.362 billion (129,106,823 MMBTU) from Federal Government for the FYs 2018-19 to 2021-22. However, SNGPL did not arrange any measurement and billing mechanism for such diversion to domestic consumers. Federal Government released funds of Rs 67 billion and payment was made to SNGPL during the FYs 2021-22 and 2022-23 without validating the claims of SNGPL with regard to measurement of actual RLNG diverted. SNGPL's claims for balance amount (Rs 110 billion) were still pending with Federal Government<sup>34</sup>.

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<sup>30</sup> Para 5.3.7 Special Audit Report on RLNG Supply Chain

<sup>31</sup> Para 5.1.1 Special Audit Report on RLNG Supply Chain

<sup>32</sup> Paras 5.4.1 & 5.5.7 Special Audit Report on RLNG Supply Chain

<sup>33</sup> Para 5.6.1 Special Audit Report on RLNG Supply Chain

<sup>34</sup> Data provided by SNGPL

Despite diversion of RLNG in huge quantity to domestic sector, gas shortage could not be substantially mitigated because winter load management and curtailment schedules announced by Federal Government were not implemented in letter and spirit because gas supply to industry / CNG sectors were continued in violation of instructions issued by Federal Government<sup>35</sup>. Some other related issues also remained unresolved such as non-adjustment of indigenous gas to RLNG consumers on account of energy equivalence (Rs 68 billion) and diversion of RLNG to domestic consumers in summer months (Rs 30 billion)<sup>36</sup>.

In order to boost exports and foreign exchange reserves, Federal Government introduced regionally competitive energy tariffs and issued directions to SNGPL for supply of RLNG to Export Oriented Units on concessionary rates (at US\$ 6.5 per MMBTU) from October, 2018 onwards. SNGPL claimed / received an amount of Rs 105 billion on account of RLNG subsidy above US\$ 6.5/MMBTU from the Federal Government for the FYs 2018-19 to 2021-22<sup>37</sup>. This scheme was flawed owing to absence of any monitoring mechanism to keep watch over exports / remittance by EOUs benefiting from the scheme. ECC and CCoE and relevant ministries have taken the cognizance of possible misuse of the scheme and decided to devise proper mechanism for provision of concessionary facility to actual exporters.

Accordingly, Finance / Petroleum Divisions both issued instructions to SNGPL to prepare master data of EOUs including FBR authentication of EOUs data and banking information and random inspections to eliminate misuse / unauthorized use of subsidized gas on non-export operations. But SNGPL did not implement the instructions of Finance / Petroleum Divisions, resultantly, 277 EOUs were not making any exports according to exports data provided by FBR but they availed the benefit of concessionary rates to the tune of Rs 21.519 billion<sup>38</sup>. Further, 128 EOUs had been enhancing their connected load than contractual loads to obtain more subsidized gas without fulfilling codal formalities<sup>39</sup>. The subsidized RLNG was mainly used for power generation by

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<sup>35</sup> Paras 2.5.4.27 and 5.7.2 Special Audit Report on RLNG Supply Chain

<sup>36</sup> Paras 2.5.4.26 and 5.7.1 & 5.7.3 Special Audit Report on RLNG Supply Chain

<sup>37</sup> Data provided by SNGPL

<sup>38</sup> Para 2.5.4.21

<sup>39</sup> Para 2.5.4.22

CPPs and Energy Efficiency Audits of CPPs were not conducted by Power Division / NEECA in compliance of CCoE decision.

High prices of petroleum products were prevailing in the international market during the FY 2021-22 causing adverse impact on the economy due to high inflation. In order to provide relief to general public and to alleviate the inflationary impact, Federal Government introduced fixed price for petrol in February, 2022 which was much lower than prices in the international market. Resultantly, Federal Government framed a mechanism of Price Differential Claims (PDCs) for refineries and OMCs under the supervision of OGRA / DG (Oil). Huge amount of Rs 244 billion was paid on this account to refineries and OMCs<sup>40</sup>. Refinery Policy, 2021 was remained on the agenda of Cabinet and its Committees but could not be approved due to disagreement on benefits given to refineries and unsettled issue relating to retention of Deemed Duty under tariff protection and its utilization by refineries for up-gradation of plants.

Issues relating to Oil Sector remained unresolved over the years such as lack of demarcation of legal powers between DG (Oil) and OGRA, defective and ineffective punitive Clauses requiring meagre amount of penalties, non-development / non-maintenance of minimum mandatory storage and stock, expansion of retail network without commensurate storage, sale of petroleum / smuggled products by dabba stations / illegal petrol pumps, dumping of petroleum products and misuse of IFEM due to absence of end-to-end automation and digitization of reporting of whole oil supply chain and its monitoring system by DG (Oil) / OGRA<sup>41</sup>. Port infrastructure for berthing of vessels and unloading of petroleum products and its transportation to interconnected storage facilities of OMCs was insufficient to cater for heavy imports resulting in constraints i.e. port congestion, disruption in supply chain and imposition of huge demurrages<sup>42</sup>.

Petroleum Division and OGRA need to address the systemic issues to make PSEs robust, transparent, efficient and sustainable besides streamlining the gas / oil supply chains to ensure uninterrupted supply of gas and petroleum products.

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<sup>40</sup> Data provided by DG (Oil) and OGRA

<sup>41</sup> Paras 2.1.4.10 & 2.1.4.11

<sup>42</sup> Para 2.1.4.9

## Chapter-1

### Public Financial Management

#### 1.1 Issues related to M/o Energy (Petroleum Division)

Significant paras framed during financial attest audit of Non-Tax Receipts of Ministry of Energy (Petroleum Division) for FY 2021-22 are as under:

##### ***1.1.1 Significant variation of actual collection with revised budget estimates - Rs 26,473 million***

According to Para 7(1)(k) of Financial Management and Powers of Principal Accounting Officers Regulations, 2021, the principal accounting officer shall be responsible, for budget executions according to plans, policy priorities of the government, rules and performance agreement. This includes the realization of economic forecasts and projections as well as achievement of goals and targets committed with reference to objective based budgeting. Further, according to Para 32(2)(b) of Regulations *ibid*, Chief Finance and Accounts Officer under the supervision of Principal Accounting Officer shall examine budget estimates of revenue receipts in the light of previous collections with justification of variance, relevant enactments, regulations, rules and instructions.

During financial attest audit of receipts administered by DG (PC), DG (Gas) and DG (LGs) Islamabad for the financial year 2021-22, it was observed that there was a significant difference between revised budget estimates and actual collection as detailed below:

(Rs in million)					
Sr. No.	Head of Account	Revised Budget estimates	Actual collection	Variation	% of actual collection to Revised Budget estimates
1	C03906-Royalty on Gas	60,046	50,924	9,122	85%
2	C03902-GDS	30,000	20,372	9,628	68%
3	C03916-GIDC	25,000	18,618	6,382	74%
4	C03917-Petroleum Levy on LPG	5,000	3,659	1,341	73%
<b>Total</b>		<b>120,046</b>	<b>93,573</b>	<b>26,473</b>	

(Source: Explanatory Memorandum, Federal Budget 2022-23)

Audit was of the view that due to un-realistic revenue estimates, DGs' failed to achieve the revised revenue targets.

The matter was reported to the management in September, 2022. The management in its reply dated October 17, 2022 stated that non-achievement of budgeted targets was due to non-realization of Royalty on Natural Gas from M/s OGDCL on those fields which were governed under Pakistan Petroleum (Exploration and Production) Rules, 1986. This non-payment occurred due to the fact that OGDCL did not receive the invoiced amount from the gas purchasers due to country wide circular debt. DG (Gas) and DG (Oil), explained that both offices had achieved the revenue targets according to revised estimates submitted by them to Finance Division based on actual collection trend of receipts.

DAC in its meeting held on October 20, 2022 directed DG (PC) to take up the matter with OGDCL for recovery of Royalty and share the outcome with Audit. DG (Gas) and DG (LGs) were directed to submit revised reply with reference to budget estimates submitted to the Finance Division, targets set by the Finance Division, efforts made for rationalization of targets and reasons for non-achievement of targets set by the Finance Division.

Audit recommends to implement the decision of DAC.

[MR-01]

#### ***1.1.2 Poor estimation of receipts due to framing of Rules against public interest***

According to Para 32(3) of Financial Management and Powers of Principal Accounting Officers Regulations, 2021, the Chief Finance & Accounts Officer shall be responsible, in respect of economic forecasting to examine the budget requirements and revenue estimations and shall also analyse financial strengths and weakness and other related aspects. He shall assist the Principal Accounting Officer in economic forecasting through which the Division or department or office concerned shall be able to map its financial future and role in overall economic picture. Further, Rule 3(a) of Natural Gas (Development Surcharge) Rules, 1967 provides that every company shall deposit at the Government treasury the amount of Gas Development Surcharge payable by it in respect of the sales during the calendar month within two months of the close of that month.

During financial attest audit of receipts administered by DG (Gas), Islamabad for the financial year 2021-22, it was observed that the liberty was granted in applicable Rules to purchasers of gas to pay GDS to the gas seller. On receipt of GDS, the gas seller was liable to deposit the same in Government Treasury within one month of receipt of GDS. Similarly, no Rules were framed by DG (Gas) indicating the due date of deposit of GDS in Government Treasury. Due to framing Rules against public interest, the DG (Gas) failed to estimate the receipts on realistic basis which had significant implication on the budget preparation process as no one can estimate the receipt accurately.

Audit was of the view that weak regulatory oversight resulted in framing the Rules against public interest which led to poor estimation of receipts.

The matter was reported to the management in September, 2022. The management in its reply dated October 17, 2022 stated that draft summary on the proposed amendments in Gas (Development Surcharge) Ordinance, 1967 was circulated to Finance and Power Division. Comments of Finance Division were received and comments were awaited from Power Division. Upon receipt of comments, the summary would be submitted to the CCLC.

DAC in its meeting held on October 20, 2022 directed the DG (Gas) to expedite the finalization of amendment in GDS Ordinance.

Audit recommends to implement decision of the DAC.

[MR-3]

### ***1.1.3 Undue retention of collected amount of Royalty by NBP depriving the provinces of due share - Rs 343.724 million***

According to Para 7(1)(p) of Financial Management and Powers of Principal Accounting Officers Regulations, 2021, the principal accounting officer shall be responsible to undertake reconciliation with accounting offices on monthly basis related to revenues and expenditure of the division.

During financial attest audit of receipts administered by DG (PC), Islamabad for the financial year 2021-22, it was observed that 06 challans relating to Royalty on Natural Gas and Crude Oil amounting to Rs 343.724 million were paid by Pakistan Oil Field Limited in NBP, but no record of this receipts of Royalty was reported to FTO by NBP. This resulted in undue

retention of collected amount of Royalty by NBP depriving the provinces of due share amounting to Rs 343.724 million.

(Rs in million)

Sr. No.	Company Name	Month / Date	Head of Account	Challan No. & Date	Instrument No. & Date	Amount
1	POL	30.09.2021	C-03906	Nil dt. 30.09.21	99558929	9.334
2	POL	30.09.2021	C-03906	Nil dt. 30.09.21	dt. 20.09.21	2.542
3	POL	30.09.2021	C-03906	Nil dt. 30.09.21		121.505
4	POL	30.09.2021	C-03906	Nil dt. 30.09.21	99558928 dt. 29.09.21	9.441
5	POL	30.09.2021	C-03905	Nil dt. 30.09.21	99558927 dt. 29.09.21	50.811
6	POL	30.09.2021	C-03905	Nil dt. 30.09.21		150.091
<b>Total</b>						<b>343.724</b>

Audit was of the view that negligence of management resulted in non-reporting of Royalty on Natural Gas and Crude Oil as well as non-transfer of Royalty to the concerned province. Similar nature paras were pointed out in audit reports 2021-22 [Para No. 1.1] of Rs 8,979.803 million, 2020-21 [Para No. 2.1.7.2] of Rs 25,0582.440 million and 2019-20 [Para No. 1.2.4] of Rs 4.121 million.

The matter was reported to the management in September, 2022. The management in its reply dated October 17, 2022 stated that the matter was taken up with the company, bank and FTO. The FTO informed that they had adjusted the said amount in the month of August, 2022.

DAC in its meeting held on October 20, 2022 directed the DG (PC) to take up the matter with NBP / FTO regarding undue retention of Government receipts for almost one year and to pay the interest for the retaining period. DAC further directed the DG (PC) to strengthen its internal controls for timely reconciliation of receipts.

Audit recommends to implement the decision of DAC.

[MR-4]

#### ***1.1.4 Non-availability of record for refund payment of Petroleum Levy - Rs 47.165 million***

According to Sr. No. 29 (5)(i) of Second Schedule framed under Rule 3(3) of Rules of Business, 1973 the Ministry of Energy (Petroleum Division) is the

administrator of the Petroleum Products (Petroleum Levy) Ordinance, 1961. Further, according to Section 3-A of the Petroleum Products (Petroleum Levy) Ordinance, 1961 the central Government may in such general cases if may prescribed by rules or in particular cases by special order, exempt a refinery or company from the payment of Petroleum Levy in respect of all or any of the petroleum products or authorized the refund in whole or in part of the Petroleum Levy paid by licensee. Furthermore, according to Para 7(1)(p) of Financial Management and Powers of Principal Accounting Officers Regulations, 2021, the Principal Accounting Officer shall be responsible to undertake reconciliation with accounting offices on monthly basis related to revenues and expenditure of the Division and the Rules there under.

During financial attest audit of receipts administered by DG (Oil), Islamabad for the financial year 2021-22, it was observed that reconciliation statement of RTO Islamabad for and up to the month of June, 2022 showed that Rs 47.165 million was refunded on account of Petroleum Levy but no record of refund was available with DG (Oil).

Audit was of the view that weak internal controls led to non-availability of source document for refund of Rs 47.165 million.

The matter was reported to the management in September, 2022. The management in its reply dated October 18, 2022 stated that FBR refunds Petroleum Levy through their approved mechanism and reconciles the same with AGPR office. FBR had already devised a mechanism for disbursing these refunds according to their existing laws. Documents for refund of Petroleum Levy were maintained by FBR.

DAC in its meeting held on October 20, 2022 directed the DG (Oil) to take up the matter with FBR for provision of source documents and share the same with Audit for verification. DAC further directed the Petroleum Division-DG (Oil) to devise a mechanism for reconciliation of Petroleum Levy in consultation with all stakeholders.

Audit recommends to implement decision of the DAC.

[MR-7]



## **Chapter-2**

### **Ministry of Energy**

#### **2.1 Petroleum Division**

##### **2.1.1(A) 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 Crude Oil and Natural Gas, Rent of lease / license areas, 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. The DG (LGs) deals with the matters relating to liquefied gases and administer collection of Petroleum Levy on Liquefied Petroleum Gas (LPG), whereas DG (Special Projects) coordinates between different directorates of Petroleum Division for implementation of the decisions of Cabinet and its committees.

Geological Survey of Pakistan (GSP) is an attached department of the Ministry of Energy (Petroleum Division) which is primarily responsible for collection and dissemination of geological information about the country so that the earth's resources could be best exploited and utilized. Department of Explosive is an attached department, which implements the enactments on the subject and policies of the government. It is technical-cum-administrative department and its main objective is to enhance the public safety within the licensed premises. The Hydrocarbon Development Institute of Pakistan (HDIP)

is an autonomous Research & Development organization under Ministry of Petroleum & Natural Resources.

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

(Rs in million)

Sr. No.	Description	Total Nos.	Audited	Expenditure involved FY 2021-22	Revenue / Receipts involved FY 2021-22
<b>1</b>	<b>MoE (PD)/Bodies/Dep.</b>				
(i)	Ministry of Energy (PD)	1	1	428.583	296,071.000
(ii)	GSP	1	1	889.372	-
(iii)	HDIP (expenditure & receipts)	1	1	112.000	-
(iv)	Department of Explosives	1	1	93.280	588.192
	<b>Profile of MoE (PD)/Bodies/Dep.</b>	<b>4</b>	<b>4</b>	<b>1,523.235</b>	<b>296,659.192</b>
<b>2</b>	<b>Autonomous Bodies / PSEs etc. under the PAO</b>	<b>14</b>	<b>09</b>	<b>4,239,350.440</b>	<b>4,547,471.977</b>

(Detail is at Annexure-2)

### 2.1.1(B) Comments on Budget and Accounts

A comparison of revised estimates and actual non-tax receipts of the Ministry for the FY 2021-22 is tabulated as follows:

(Rs in million)

Nature of Receipt	Original Target* 2021-22	Revised Target* 2021-22	Collection** 2021-22	Difference from Revised Target	
				Absolute	Percentage
1	2	3	4	5 (4-3)	6
Petroleum Levy (C0-3901)	610,000	135,000	127,483	7,517	5.57
Gas Development Surcharge (C0-3902)	36,000	30,000	20,372	9,628	32.09
Royalty on Oil (C0-3905)	35,000	40,000	43,484	3,484	8.71
Royalty on Gas (C0-3906)	65,000	60,000	50,924	9,076	15.13
Discount Retained on Local Crude Oil (C0-3910)	20,000	16,000	16,503	503	3.14
Windfall Levy (C0-3915)	10,000	12,000	14,396	2,396	19.97
Gas Infrastructure Development Cess (C0-	130,000	25,000	18,618	6,382	25.53

3916)					
Petroleum Levy on LPG (C0-3917)	7,600	5,000	3,659	1,341	26.82
Others (C0-3808)	450	800	832	32	4.00
<b>Total</b>	<b>914,050</b>	<b>323,800</b>	<b>296,071</b>	<b>40,359</b>	

\*Explanatory Memorandum of Federal Receipts 2022-2023

\*\* Collection according to AGPR Data

The Ministry collected Rs 296,071 million against revised estimates of Rs 323,800 million for the FY 2021-22. It showed overall less collection of Rs 27,529 million (-8.5% as compared with the revised estimates of receipts). The actual collection against the original budgeted targets raised question on the methodology of budgeting process as shortfall in collection of receipts amounted to Rs 617,779 million (-67.59%) as compared with original budgeted targets.

A comparison of actual receipts between the FYs 2020-21 and 2021-22 is tabulated as follows:

Nature of Receipt			(Rs in million)	
	Collection		Difference	
	FY: 2021-22	FY: 2020-21	Absolute	Percentage
1	2	3	4 (2-3)	5
Petroleum Levy (C0-3901)	127,483	424,856	297,373	233.26
Gas Development Surcharge (C0-3902)	20,372	22,523	2,151	10.56
Royalty on Oil (C0-3905)	43,484	22,406	21,078	48.47
Royalty on Gas (C0-3906)	50,924	48,511	2,413	4.74
Discount Retained on Local Crude Oil (C0-3910)	16,503	10,332	6,171	37.39
Windfall Levy (C0-3915)	14,396	3,028	11,368	78.97
Gas Infrastructure Development Cess (C0-3916)	18,618	19,439	821	4.41
Petroleum Levy on LPG (C0-3917)	3,659	3,556	103	2.81
Others (C0-3808)	832	1,033	201	24.16
<b>Total</b>	<b>296,071</b>	<b>555,684</b>	<b>341,679</b>	

(Source: Financial Statements of the Federal Government for the FY 2020-21 and AGPR Data)

The table revealed significant shortfall in collection of Petroleum Levy of Rs 297,373 million as compared to FY 2020-21. However, there was increasing

trend in collection of Royalty on Oil, Natural Gas, Windfall levy and Discount Retained on Local Crude Oil Price.

### 2.1.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 71,893.620 million were raised in this report during the current audit of Ministry of Energy (Petroleum Division). This amount also includes recoverable of Rs 52,673.060 million as pointed out by Audit. Summary of the audit observations classified by nature is as follows:

#### Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Assessment and Realization of GIDC and GDS	28,349.090
B	Assessment and Realization of Petroleum Levy and Windfall Levy	4,002.501
C	Assessment and Realization of Royalties on Crude Oil and Gas	17,723.705
D	Issues Related to Oil	1,279.430
E	Issues Related to Corporate Affairs	-
2	Others	20,538.894

### 2.1.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
1990-91	04	04	0	100
1991-92	01	01	0	100
1992-93	04	04	0	100
1993-94	01	01	0	100
1994-95	01	01	0	100
1995-96	01	01	0	100
1996-97	05	05	0	100
1997-98	03	03	0	100
1998-99	15	15	0	100
1999-00	04	04	0	100
2000-01	06	0	06	0
2001-02	01	0	01	0
2002-03	01	0	01	0
2003-04	01	01	0	100
2004-05	03	0	03	0
2005-06	02	01	01	50
2007-08	04	0	04	0
2008-09	16	10	06	63

2009-10	11	0	11	0
2010-11	26	24	02	92
2011-12	30	13	17	43
2012-13	32	10	22	31
2013-14	40	19	21	48
2014-15	26	09	17	35
2015-16	31	07	24	23
2016-17	29	06	23	21
2017-18	21	05	16	24
2018-19	05	01	04	20
2019-20	07	01	06	14
<b>Total</b>	<b>332</b>	<b>146</b>	<b>184</b>	<b>44</b>

The table showed lackluster 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.

## 2.1.4 Audit Paras

### Assessment and Realization of GIDC and GDS

#### 2.1.4.1 Non-realization of GDS due to lacuna in Rules - Rs 24,519 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. 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.

During audit of DG (Gas), Islamabad for the FY 2021-22, it was observed that DG (Gas) did not realize GDS amounting to Rs 24,519 million from various companies in respect of gas sold to fertilizer and power companies as detailed below:

(Rs in million)		
Sr. No.	Name of Company	Outstanding Amount
1	PPL	14,815
2	MPCL	9,704
<b>Total</b>		<b>24,519</b>

Further, no time limit had been prescribed for end users / consumers to pay GDS to Gas Utility companies or E&P Companies. This had given leeway to companies to withheld GDS.

Audit was of the view that defective regulatory frame work resulted in non-realization of GDS. Similar nature paras were also pointed out in audit reports 2021-22 [Para No. 2.1.4.2] of Rs 42,959.380 million, 2020-21 [Para No. 2.1.7.2] of Rs 25,0582.440 million, 2019-20 [Para No. 2.1.7.3] of Rs 20,582.840 million and 2018-19 [Para No. 2.1.5.1] of Rs 30,088.610 million.

The matter was reported to the management in August, 2022. The management in its reply dated December 07, 2022 stated that prior to amendments in GDS Rules, GDS was payable within two months which was amended to one month. An amount of Rs 14,815 million pertained to PPL for the period July, 2021 to June, 2022. According to Finance Act, 2012, the company was responsible to make payments into the Government Treasury only after the

same had been recovered. GENCO-II has continuously been defaulting in timely settlement of gas sales bills due to which PPL was unable to make timely payment of GDS. Out of Rs 9,704 million, an amount of Rs 2,866 million has been recovered from MPCL in the month of July 2022 and the same was verified by Audit.

DAC in its meeting held on December 28, 2022 directed the management to take up the matter with Power Division for early settlement of the issue and expedite recovery of remaining amount of Rs 21,653 million. Para was reduced to the extent of recovered and verified amount of Rs 2,866 million.

Audit recommends to amend the Rules in public interest besides recovery of billed GDS.

[DP No. 1958]

#### ***2.1.4.2 Inadmissible Payment from GIDC - Rs 2,296.760 million***

According to Section 4(1) of Gas Infrastructure Development Cess Act, 2015, the Cess shall be utilized by the Federal Government for or in connection with infrastructure development of Iran-Pakistan Pipeline Project, Turkmenistan-Afghanistan-Pakistan-India (TAPI) Pipeline Project, LNG or other ancillary projects.

During audit of DG (Gas), Islamabad for the FY 2021-22, it was observed that ISGS spent an amount of Rs 2,296.760 million from GIDC for the repayment of principal amount of loan and interest thereon amounting to Rs 1,660 million to GHPL and also accrued operational cost of Rs 636.760 million, which was in violation of above-mentioned Act. However, these payments were made in pursuance of the decision of the ECC dated December 24, 2020. This resulted in inadmissible payment of loan, interest and operational cost paid from GIDC of Rs 2,296.760 million.

Audit was of the view that weak monitoring by DG (Gas) resulted in inadmissible payment of loan from GIDC of Rs 2,296.760 million.

The matter was reported to the management in August, 2022. The management in its reply dated December 07, 2022 stated that ECC of the Cabinet in its meeting held on February 10, 2020 approved the rationalized expenditure for the company as approved by the ISGS Board including TAPI and NSGP commitments to be funded through GIDC funds, if possible. Further,

ECC of the Cabinet in its meeting held on December 24, 2020 approved that all direct and indirect costs in relation to ISGS gas import and infrastructure projects should be met through the GIDC funds until any of ISGS's projects generated revenue. Furthermore, GIDC High Powered Project Review Board in its meeting held on December 28, 2020, among others accorded its approval for repayment of GHPL loan and operational cost of ISGS. The payment of loan and utilization of Cess for operational cost was made after approval of relevant forum and was in line with Section 4 (i) of GIDC Act, 2015.

Audit contended that no infrastructure was developed by the company since its establishment in 1996. Repayment of loan and meeting expenditure of company from GIDC funds was not admissible.

DAC in its meeting held on December 28, 2022 directed the management to seek clarification from Law & Justice Division and share the outcome with Audit.

Audit recommends to implement the decision of DAC.

[DP Nos. 1959 & 1960]

#### ***2.1.4.3 Inadmissible adjustment of GDS resulting in short realization of Government revenue - Rs 1,125 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 the differential margin in respect of natural gas sold by it. Further, the Section 8(4) of Oil and Gas Regulatory Authority Ordinance, 2002 provides that if the Federal Government fails to advise the Authority within forty days and the prescribed price for any category of retail consumer for natural gas is higher than the most recently notified sale price for that category of retail consumers for natural gas, the Authority shall notify in the official Gazette the prescribed price to be the sale price for the said category of retail consumers for natural gas.

During audit of DG (Gas), Islamabad for the FY 2021-22, it was observed that M/s MARI adjusted an amount of Rs 1,125 million on account of negative differential margin against the GDS payable to Government of Pakistan. The adjusted amount represents the amount which was generated against the Government on the reasons that the prescribed price of the gas exceeds the

notified sales price of the Natural Gas. In the Administrative Act (The Natural Gas (Development Surcharge) Ordinance, 1967) and rules framed thereunder, there is no provision for adjustment of negative differential margin against the Gas Development Surcharge. The inadmissible adjustment led to financing of gas producer companies from the GDS which was payable to Government and resulted in reduction of GDS. This situation arose due to failure of OGRA to enforce its regulatory function for notification of prescribed Sales Price and DG (Gas) being the administrator of Gas Development Surcharge Ordinance failed to submit the position to competent Authority to safeguard government exchequer. This resulted in inadmissible adjustment and short payment of GDS of Rs 1,125 million.

Audit was of the view that weak monitoring by DG (Gas) resulted in inadmissible adjustment of GDS Rs 1,125 million. Similar nature paras were also pointed out in audit reports 2020-21 [Para No. 2.1.7.3] of Rs 3,884.600 million, 2019-20 [Para No. 2.1.7.2] of Rs 34,168.003 million and 2018-19 [Para No. 2.1.5.2] of Rs 2,25.644 million.

The matter was reported to the management in August, 2022 and to OGRA in December, 2022. The management in its reply dated December 07, 2022 stated that amendments in GDS Ordinance were in process. The issue of negative GDS would be addressed in proposed amendments. Management further, explained that Petroleum Division had submitted a summary for review of category wise gas prices to the ECC and the ECC considered the same in its meeting held on July 07, 2022 and asked for fresh submission after re-consideration of the Minister In-charge of Petroleum Division. The presentation on the issue has also been made to the Prime Minister being Minister In-charge. The matter was also referred to Finance Division. Meanwhile, the OGRA had held public hearing for revision of ERR and determination was expected soon. The Government would consider the OGRA determination for revision in gas prices effective from January 01, 2023.

DAC in its meeting held on December 28, 2022 with Petroleum Division directed the management to finalize the amendments in the GDS Ordinance and to resolve the issue in consultation with all stakeholders and share the outcomes with Audit. Whereas DAC in its meeting held on December 26, 2022 with Cabinet Division directed OGRA to furnish reply regarding audit observation.

Audit recommends to take corrective action for self-adjusted amount of GDS and expedite the process of amendment in Law.

[DP Nos. 1963 & 1964]

**2.1.4.4 Non-realization of mark up on the delayed payment of GIDC - Rs 408.330 million**

According to Section 3(3) of Gas Infrastructure Act, 2015 a mark-up at the rate of four percent above three months KIBOR prescribed by the Federal Government shall be payable by the gas consumer or the company on any amount due, if the said amount is not paid by the said gas consumer or by the said company. The Supreme Court of Pakistan in the case of Civil Appeal No. 1113/2017 directed that as all industrial and commercial entities which consume gas for their business activities pass on the burden to that customers/client therefore, all arrears of Cess that have become due up to July 31, 2020 and have not been recovered so far shall be recovered by the companies responsible under the GIDC Act, 2015 to recover from their consumers. However, as a concession, the same be recovered in twenty four equal monthly instalments starting from August 01, 2020 without the component of late payment surcharge. The late payment surcharge shall only become payable for the delays that may occur in the payments of any of the twenty-four instalments.

During audit of DG (Gas), Islamabad for the FY 2021-22, it was observed that DG (Gas) did not initiate any action for the recovery of Late Payment Surcharge from SNGPL, MPCL and PPL who failed to deposit the instalments on due date. This resulted non-realization of mark up of Rs 408.330 million as detailed below:

(Rs in million)		
Sr. No.	Name of Company	Amount
1	SNGPL	215.280
2	MPCL	136.442
3	PPL	56.608
	<b>Total</b>	<b>408.330</b>

Audit was of the view that weak monitoring by DG (Gas) resulted in non-realization of mark up on the delayed payment of GIDC of Rs 408.330 million.

The matter was reported to the management in August, 2022. The management in its reply dated December 07, 2022 stated that in pursuance of

SCP judgment SNGPL raised invoices of GIDC to consumers on monthly basis. However, most of the consumers disputed the claims and obtained restraining orders from the relevant forum. Further, MPCL and PPL had deposited GIDC principal amount. However, no payment on account of mark-up was involved.

DAC in its meeting held on December 28, 2022 directed the management to expedite the recovery within one month and pursue the case in the court of law.

Audit recommends to expedite the recovery and pursue the case in the court of law.

[DP No. 1961]

## **Assessment and Realization of Petroleum Levy**

### ***2.1.4.5 Short-realization of Petroleum Levy and LPS - Rs 3,884.878 million***

According to Section 3 of Petroleum Products (Development Surcharge) Ordinance, 1961, read with Section 3A(2)(b), every company, refinery and licensee is obliged to pay a Petroleum Levy to the Federal Government at prescribed rates in the same manner as an import duty is payable under the Customs Act, 1969. Further, according to Section 40-B of Public Financial Management Act, 2019, non-tax revenue shall be levied and charged in accordance with the provisions of relevant laws. Furthermore, Section 40-D of the Act *ibid* provides that an amount equal to monthly weighted financing cost of Government's domestic borrowing shall be payable during the period of default, in addition to the amount due under Section 40-B, if not paid within stipulated time.

During audit of DG (Oil), Islamabad for the FY 2020-21, it was observed that M/s Cnergyico Limited on the one hand paid less amount of Petroleum Levy on the sale of refined petroleum products and on the other hand deposited Petroleum Levy with considerable delay which necessitates LPS. In another case, invoices issued by M/s Cnergyico Limited to different OMCs for sale of POL products were shown missing in the monthly sales summary of Refinery. This led to short-realization of Petroleum Levy and LPS amounting to Rs 3,884.878 million.

Audit was of the view that weak monitoring by DG (Oil) resulted in short-realization of Petroleum Levy and LPS of Rs 3,884.878 million.

The matter was reported to the management in August, 2022. The management in its reply dated December 07, 2022 stated that concerned company was directed to deposit the outstanding amount of Rs 3,744.589 million. The management further explained that an amount of Rs 140.291 million was not due. M/s Cnergyico Limited intimated that missing invoices were related to other than POL products except four sales invoices of HSD pertaining to first half of March, 2022 when the rate of Petroleum Levy was zero, hence no PL was due.

DAC in its meeting held on December 28, 2022 directed the management to recover the outstanding amount within 15 days and get the same verified from Audit. An amount of Rs 140.291 million was reduced from the para as it was not due amount. In case of issue of missing invoices, the DAC directed DG (Oil) to probe the matter and submit the report within one month.

Audit recommends to recover the outstanding amount on account of Petroleum Levy and LPS besides probing the matter to ascertain the actual position regarding due amount of Petroleum Levy and its payment.

[DP Nos. 1952, 2165/K, 2166/K & 2167/K]

#### ***2.1.4.6 Non-realization of Petroleum Levy on internal consumption of HSD - Rs 117.623 million***

According to Section 3 of Petroleum Products (Petroleum Levy) Ordinance, 1961 amended through Petroleum Products (Petroleum Levy) Amendment Act, 2011, every company, refinery and licensee shall pay to the Federal Government a Petroleum Levy on petroleum products at such rates as may be notified by the Federal Government in the official Gazette, from time to time. Further, Ministry of Law and Justice vide F.No.694/2021-Law-I dated November 24, 2021 clarified that Petroleum Levy is to be paid on the petroleum product produced and is not dependent on its usage or whether it is sold directly or through nozzle, henceforth it was stated that petroleum products used by companies for their own consumption are not exempt from the payment of Petroleum Levy.

During audit of DG (Oil), Islamabad for the FY 2021-22, it was observed that DG (Oil) did not recover Petroleum Levy on internal consumption of HSD

by the licensees. This resulted non-realization of Petroleum Levy of Rs 117.623 million.

Audit was of the view that weak monitoring by DG (Oil) resulted in non-realization of Petroleum Levy of Rs 117.623 million.

The matter was reported to the management in August, 2022. The management in its reply dated December 07, 2022 stated that M/s APL had already paid Petroleum Levy on internal consumption of HSD as well as on PMG, so an amount of Rs 0.524 million was not due. M/s Cnergyico had informed that they had consumed Light Diesel Oil (LDO) instead of HSD. An amount of Rs 11.77 million have been recovered / not due and verified by Audit. M/s PRL had been directed to deposit the due amount.

DAC in its meeting held on December 28, 2022 directed the management to expedite the recovery of balance amount within one month. Para was reduced to the extent of recovered / not due amount duly verified by Audit, Rs 11.77 million. DAC further directed to provide the reconciled data of all production and Petroleum Levy for the FY 2021-22 in respect of M/s Cnergyico for verification of Audit within a week. In compliance of DAC directives, M/s PRL deposited an amount of Rs 4.933 million on account of Petroleum Levy on internal consumption of HSD on January 10, 2022 and verified by Audit.

Audit recommends to recover remaining amount besides implementation of the decision of DAC.

[DP No. 1951]

## **Assessment and Realization of Royalties on Crude Oil and Gas**

### ***2.1.4.7 Non-realization of Royalty on Oil and Gas - Rs 17,348.223 million***

According to the Rules 35 and 36 of the E&P Rules, 1986 and 2001, 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. Royalty is payable monthly within 10 days of the expiry of the calendar month in question under E & P Rules, 1986 and within 45 days under E&P Rules, 2001. Further, Rule 35 of Pakistan Onshore Petroleum (Exploration and Production) Rules 2013, provides the mechanism for renewal or re-grant the leases after the expiry of a lease period.

During audit of DG (PC) for the FY 2021-22, it was observed that DG (PC) either did not realize Royalty on Crude Oil and Natural Gas or miscalculated Royalty from ten E&P companies on accounts of 42 Blocks on production and sale of crude oil and natural gas. In another case, PCA was not in line with the Model Petroleum Concession Agreement, 1994. The company was allowed to charge finance cost on account of facility costs against the sales value for determining the wellhead value of petroleum produced and saved. This resulted in non-realization of Royalty amounting to Rs 17,348.223 million.

Audit was of the view that weak monitoring and non-compliance of Rules resulted in non-realization of Royalty on crude oil and natural gas amounting to Rs 17,348.223 million. Similar nature paras were also pointed out in audit reports 2021-22 [Para No. 2.1.4.7] of Rs 10,720.230 million, 2020-21 [Para No. 2.1.7.6] of Rs 9,657.272 million, 2019-20 [Para No. 2.1.7.11] of Rs 344.944 million and 2018-19 [Para No. 2.1.5.17] of Rs 186.690 million.

The matter was reported to the management in November, 2022. The management in its reply dated December 05, 2022 stated that an amount of Rs 2,973.696 million had been recovered from M/s UEPL and Bow Energy and the same had been verified from Audit. Further, an amount of Rs 847.625 million had already been recovered and verified by Audit. An amount of Rs 11,576.38 was recoverable from OGDCL pertaining to circular debt. However, the company had been requested to deposit the amount. Furthermore, recovery of Rs 627 million was being pursued from M/s Spud Energy, OGIL, PEL and Pyramid.

DAC in its meeting held on December 28, 2022 directed the management to expedite the recovery of balance amount of Rs 13,361.144 million within one month. Para was reduced to the extent of recovered amount of Rs 2,973.696 million and not due amount of Rs 847.625 million. DAC further directed to ensure timely reconciliation of receipts with E&P companies on monthly basis. DAC in the case of charging of Finance Cost against Royalty and charging of RPCs in case of Mazrani Gas Field directed the Petroleum Division to probe the matter and submit the report within two months.

Audit recommends to implement the decision of DAC.

[DP Nos. 2097, 2108 & 2103]

#### ***2.1.4.8 Blockage of Government Revenue (Royalty) due to non-allocation of Hydrocarbons - Rs 375.482 million***

According to Clause 18 of Sui Oil Mining Lease, the lessee shall pay to the Governor General within two months after the end of each year of the term hereby granted the royalties on all crude oil won and saved by the lessee from the said lands 12.5% on the well head value.

During audit of DG (PC) for the FY 2021-22, it was observed that PPL was producing condensate from the Oil Mining Lease No. 1 Balochistan. The record of M/s LMKR revealed that production of condensate commenced since 1998 but neither the company nor DG (PC) initiated any steps for allocation and sales of condensate. This resulted in blockage of government revenue on account of Royalty on Crude Oil of Rs 375.482 million.

Audit was of view that weak regulatory oversight resulted in blockage of government revenues Rs 375.482 million.

The matter was reported to the management in November, 2022. The management in its reply dated December 05, 2022 stated that Condensate produced from the Sui Mining lease was not crude oil but it was by-product of dry gas and the condensed due to change in reservoir condition to surface. No condensate from Sui field had been sold out to refinery till to date. However, due to reservoir depletion and eventual produced condensate volume, company had now surplus condensate which would have to be sold to M/s PARCO and allocation and approval had been provided by the Ministry. PPL would deposit royalty upon commencement of condensate sale to refinery.

DAC in its meeting held on December 28, 2022 directed the management to get the stated stance verified from Audit within a week. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides recovery of Royalty on the sale of condensate.

[DP No. 2101]

## **Issues Related to Oil**

### ***2.1.4.9 Loss due to payment of demurrages - Rs 1,279.430 million***

According to Article VIII(ii) of General Terms and Conditions of agreement between PSO and Kuwait Petroleum Ltd. dated February 21, 2019, the buyer shall pay demurrage to the seller, at the rate specified in the agreement.

During audit of PSO for the FY 2021-22, it was observed that the management failed in timely clearance of shipments of petroleum products. Consequently, PSO had to pay demurrages amounting to Rs 1,279.430 million (US\$ 6.246 million @ Rs 204.85 on 70 consignments). This resulted in loss due to payment of demurrages amounting to Rs 1,279.430 million.

Audit was of the view that poor planning of the management resulted in payment of demurrages amounting to Rs 1,279.43 million. Similar nature paras were pointed out in audit reports 2021-22 [DP No. 1646 & 1648] of Rs 839.900 million and 2020-21 [Para No. 2.4.6.5] of Rs 1,792.350 million.

The matter was reported to the management in October, 2022. The management in its reply dated January 09, 2023 stated that 90% of subject demurrages incurred due to “Port Congestion” while only 10% of the total demurrages incurred due to the reasons attributed to operational delays. The core reasons owing to demurrages were including but not limited to port congestion, operational delays and storages / ullages constraints/sales fluctuations. It was an industry-wide issue which was not attributed to PSO or PSO’s planning in scheduling of cargoes but because of the reasons such as port congestion, operational delays, abrupt change in market dynamics that were beyond the control of PSO. Furthermore, PSO was taking all necessary measures with concerned authorities to mitigate the incidence of demurrages and continuous efforts were being made to address the aforesaid issues. Audit contended that yearly demurrages during FY 2017-2021 merely was showing that decrease in demurrages was due to decrease in number of cargos. Furthermore, days in delay of unloading exceeded the allowed laytime which were ranging from 0.158 days to 17.068 days.

The DAC in its meeting held on January 09, 2023 directed the management to take further steps to reduce the demurrages.

Audit recommends to devise a mechanism to avoid / control such recurrence in future.

[DP No. 1981]

***2.1.4.10 Non-redressal of long outstanding issues and operational lapses by Petroleum Division and OGRA resulting in oil shortage***

According to Rule 37 read with Rule 69 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, every oil marketing company shall maintain such minimum stocks of petroleum products as the Federal Government may, from time to time, by order in writing specify. Further, according to Rule 30-B of Pakistan Petroleum (Refining, Blending and Marketing) Rules, 1971, where the production of petroleum products by the local refineries is found insufficient, the Authority (DG Oil) may, subject to such condition as it may impose from time to time, a marketing company may import such products.

During audit of DG (Oil) / OGRA for the FYs 2020-21 to 2021-22, it was observed that a countrywide shortage of PMG was occurred in June, 2020 and consumers at large faced difficulties in getting supply of PMG such as closure of retail outlets and long queues at retail outlets of PSO which were supplying PMG. Several operational lapses, mismanagement of Petroleum Division / OGRA and legal lacuna were identified contributing to oil shortage in June, 2020 which could not be resolved till December, 2022 as given below:

- i. Defective assessment of demand of petroleum products without considering the quantity of 20 days minimum mandatory stock as envisaged in Oil Rules, 2016 and license condition imposed by OGRA which created a shortfall of 177, 953 M. Tone, oil shortage could have been mitigated if stock of 410,932 M. Tone was kept by the OMCs as required under the law but OMCs kept 232,979 M. Tone on June 01, 2020. This shortfall minimum mandatory stock was still continued and not formed part of demand as yet as detailed in Annexure-4(i);
- ii. DG (Oil) while holding PRM fixed low target for local production by refineries as compared to huge targets for import of PMG. Petroleum Division did not ensure optimum production of PMG from the refineries despite oil shortage in June, 2020. The refineries were allowed to reduce the committed supply from 205,000 M. Tone to 154,500 M. Tone for

June, 2020 as compared to the production of 274,880 M. Tone during May, 2020. Further, refineries were not directed to bring stock of PMG (37,261 M. Tone) in the market to mitigate the oil shortage as detailed in Annexure 4(ii);

- iii. Physical movement of the PMG could not be monitored by the DG (Oil) / OGRA due to absence of physical reporting system, tracking system / digitalization of data relating to whole supply chain. to validate the reported dispatches from depots actually delivered to respective retail outlets and en-route dumping and hoarding of product in the tank lorries; and
- iv. Maximum penalty up to Rs 10 million envisaged in the Pakistan Petroleum (Refining, Blending and Marketing) Rules, 2016 did not create deterrence so it may be revised keeping in view of inflationary rates and time value of money.

Audit was of the view that due to non-redressal of the legal lacuna and operational deficiencies; oil sector was still facing these problems which may cause another crisis in future and functioning of OMCs and refineries could not be streamlined.

The matter was reported to MoE / PD in September, 2021. DAC in its meeting held on November 03, 2021 directed DG Oil to expedite the amendments in the Rules to regulate the proceedings of PRM under the Jurisdiction of OGRA. DAC also directed DG (Oil) / OMCs to justify the position regarding low local production of PMG by refineries and fixing unrealistic targets of imports. DAC further directed the MoE (PD) / DG (Oil) and OGRA to devise or maintain database (digitization) of oil supply chain to account for opening stocks, purchases (local and imports), sales to retail outlets and closing stock of petroleum products on real time basis besides monitoring of movements of products by using tracking system in tank lorries to verify actual delivery of products. Further, progress, however, was not received till finalization of the report.

Audit recommends to take expeditious steps for redressal of chronic issues and removal of legal lacuna besides to implement the decisions of DAC.

[OMC's Forensic Audit Report]

#### ***2.1.4.11 Inaction against delinquent OMCs and departmental officials for oil shortage***

According to SoP for berthing of vessels circulated by OCAC in April, 2018, vessels would be berthed in turn/sequence (based on laycan) and even if a company is dry/going dry, its vessel would be berthed only on its turn and not before. On 26 March, 2020, MoE / PD withdrew the authority of approving the laycan and berthing of vessels from OCAC and took the charge to DG Oil henceforth. According to Rule 30-B of Pakistan Petroleum (Refining, Blending and Marketing) Rules, 1971, where the production of petroleum products by the local refineries is *found* insufficient, the Authority (DG Oil) may, subject to such condition as it may impose from time to time, a marketing company may import such products. Furthermore, according to Clause (ix), (x), & (xiii) of Rule 53 of *ibid* and license conditions of OMCs, all licensees, in relation to their regulated activity, shall not to abandon any regulated activity, as a part or whole, resulting into discontinuation of supply of petroleum products or its sale in any area without the prior written consent of the Authority.

During audit of MoE (PD) / DG (Oil) for the FY 2020-21, it was observed that a countrywide shortage of PMG was occurred in June, 2020 and OMCs indulged in hoarding of PMG (according to Fuel Crisis Committee Report), delayed berthing of vessels and discontinued the supply of petroleum products as evident from decrease in market share as given below:

- i. OMCs placed orders for import of 682,008 M. Tone of PMG against import quota of 702,000 M. Tone for the month of June, 2020 and a substantial quantity of 154,437 MT were not unloaded at Ports by OMCs due to delay in berthing of the vessel and delayed approval of laycan. In addition to this, imported / bonded product of 108,371 MT was not cleared / ex-bonded from Customs during the month of June, 2020 for bringing to market, thus aggravating the oil shortage for fetching benefit of expected price increase. But punitive action against delinquent OMCs and departmental officials was not initiated. This resulted in non-imports / delayed berthing of vessels and delayed ex-bonding of PMG available in bonded warehouses of OMCs, aggregating shortage of 262,808 MT of PMG as detailed in Annexure-5(i); and
- ii. The OMCs reported overstated sales 734,900 M. Tone to PRM against actual sales in light of available stocks was 607,188 M. Tone. The OMCs

reported opening and closing stock of 267,139 M. Tone and 267,668 M. Tone respectively and purchased a quantity of 607,719 M. Tone of MG (local purchase plus import as per customs record) thus total quantity of 874,858 M. Tone was available for sale during June, 2020. However, the OMCs had closing balance of 267,668 M. Tone, consequently the OMCs sold 607,190 M. Tone (on the basis of import / ex-bonding as per customs). Further, the market share of most of the OMCs, except PSO, decreased during June, 2020 due to less sale of PMG by the OMCs as detailed in Annexure 5(ii).

Audit was of the view that due to delinquency on the part of the MoE (PD) / DG Oil and OMCs, imported PMG could not be brought into the market for sale to end consumers thus creating artificial shortage to fetch benefits of anticipated higher prices.

The matter was reported to MoE / PD in September, 2021. In DAC meeting held on November 03, 2021 SPL stated that SPL's vessel was decanted in two berthing based on ullage in tanks at SPL's Kemari terminal and jetty availability at KPT. SPL had an operatable storage of (24,000 MT) based on which the request for 2<sup>nd</sup> berthing was done when ullage was available. Audit highlighted that OMCs could not finalize their imports in first half of June, 2020 as directed by DG (Oil) in PRMs and approval of berthing was delayed despite oil shortage in the country. This resulted in oil shortage because the product could not be reached market despite its imports by OMCs and OMCs reported overstated figures of sales on the basis of ordered quantity irrespective of actual imports and unloading from the vessels.

The DAC directed the management of OMCs to provide the import / sales data with supporting documents to Audit for verification and justify non-finalization of imports in first half of June, 2020. The DAC directed DG (Oil) to take up the matter with OGRA to finalize the punitive action against the OMCs with declined market share. Further, progress however not received till finalization of the report.

Audit recommends to take punitive action against the delinquent OMCs and departmental officials for non-import and delay in berthing and ex-bonding of bonded product besides to ensure compliance of the decisions of DAC.

[OMC's Forensic Audit Report]

## **Issues Related to Corporate Affairs**

### ***2.1.4.12 Appointment of Chairperson of SNGPL Board without explicit approval of Federal Cabinet***

According to Rule 4(4) of Public Sector Companies (Corporate Governance) Rules, 2013 the Chairperson of the Board shall be elected by the Board of Directors of the Public Sector Company. However, this provision shall not apply where Chairperson of the Board is appointed by the Government.

During audit of SNGPL for the FY 2021-22, it was observed that Petroleum Division submitted two names in order of priority (at Sr. No. 1 Ms. Roohi Raees Khan and Sr. No. 2 Mr. Rizwan Ullah Khan) in its summary dated June 04, 2020 for nomination for election of Directors / Chairperson on the Board of SNGPL. Federal Cabinet approved the name at Sr. No. 2 by omitting name at Sr. No. 1 to be elected as Chairperson. The deliberate omission of the name at Sr. No. 1 tantamount to rejection / non-clearance of the candidature at Sr. No. 1 (Ms. Roohi Raees Khan) as possible Chairperson. Petroleum Division forwarded the name to SNGPL Board in the same sequence as sent to the Federal Cabinet in its initial summary dated June 04, 2020. On July 13, 2022, BoD of SNGPL in its 555<sup>th</sup> meeting elected person at Sr. No. 1 as Chairperson of BoD for three years who was not approved by the Federal Cabinet. Audit contended that the letter dated June 09, 2020 was not reflective of the decision of the Federal Cabinet as possible Chairperson. Resultantly, a member not approved by Federal Cabinet, as possible Chairperson, was elected as Chairperson of the Board.

Audit was of the view that wrong communication of Federal Cabinet decision by the Petroleum Division resulted in appointment of Chairperson who was not approved by the Federal Cabinet.

The matter was reported to the management in October, 2022. The management in its reply dated January 12, 2023 contested the stance of Audit on the ground that Section 4(4) of Rules *ibid* was applicable in respect of those Public Sector Companies where the Chairman was also the Chief Executive while in the case of SNGPL, Managing Director, was the Chief Executive who was appointed by the Federal Cabinet while Chairperson being a non-executive position was not appointed by the Federal Cabinet rather was elected by the BoD. In the instant case, the person approved by the Federal Cabinet as possible

Chairperson, resigned from the Directorship, therefore, the BoD by exercising its legal authority under Section 192(1) of companies Act, 2017 elected the other person as Chairperson.

Audit contended that the GoP has 57% stake in the company and specific rules of Public Sector Companies (Corporate Governance) Rules, 2013 had been framed by the Federal Government. According to Section 4(1) of Rules *ibid*, “the office of the Chairperson shall be separate, and his responsibilities distinct, from those of the Chief Executive”. Therefore, the management contention that Rules *ibid* were applicable where Chairperson and Chief Executive were same, was not correct. Moreover, in view of the Rule 4(4) of Public Sector Companies (Corporate Governance) Rules, 2013 and persistent previous practice of the appointment of the Chairperson after obtaining approval of possible Chairperson by Federal Government, the resignation of nominated person must have been brought to the notice of Federal Cabinet to seek advice / approval of some other name as possible Chairperson.

The DAC meeting was not held on this para by Petroleum Division despite repeated requests.

Audit recommends to probe the matter with a view to fix responsibility for wrong communication of Federal Cabinet decision by the Petroleum Division and non-obtaining of nomination after resignation of the approved candidate.

[DP Nos. 2183, 2184, 2185, 2186 & 2199]

#### ***2.1.4.13 Non-compliance of laws related to appointment on casual vacancy of the Director***

According to Section 155(3) of Companies Act, 2017 any casual vacancy on the board of a listed company shall be filled up by the Directors at the earliest but not later than ninety days from the date, the vacancy occurred. Further, according to Rule 3A(3) of Public Sector Companies (Corporate Governance) Rules, 2013 (3) a Director nominated by the Government shall hold office in accordance with Section 183 of the Ordinance.

During audit of SNGPL for the FY 2021-22, it was observed that Government nominated Director elected in AGM meeting held on July 06, 2020, tendered resignation on December 04, 2021 resulting in casual vacancy of Director. However, this casual vacancy had not been filled despite lapse of 90

days as prescribed by law despite the fact that company informed Petroleum Division to get approval for nomination from the Federal Cabinet. This resulted in non-compliance of laws related to appointment on casual vacancy of Government Director.

Audit was of the view that non-compliance by Petroleum Division resulted in weak oversight related to appointment on casual vacancy of the Director.

The matter was reported to the management in October, 2022. The management in its reply dated January 12, 2023 stated that the company vide letters dated January 07, 2022, February 10, 2022, March 01, 2022, April 25, 2022 and October 7, 2022 had repeatedly requested the Petroleum Division for nomination of a Director to fill the casual vacancy.

The DAC meeting was not held on this para by Petroleum Division despite repeated requests.

Audit recommends that matter may be looked into besides seeking approval of Government nominated Director.

[DP No. 2189]

## **Others**

### ***2.1.4.14 Non-incorporation of PDC in Annual Budget Statement leading to understatement of budget deficit - Rs 9,014 million***

According to Article 80 of the Constitution of Islamic Republic of Pakistan, the Federal Government shall in respect of every financial year, cause to be laid before the National Assembly a statement of the estimated receipts and expenditure of the Federal Government for that year. Further, Annual Budget Statement, which shall show separately charged expenditure and other expenditure required to meet from Federal Consolidated fund.

During audit of DG (Oil), Islamabad for the FY 2021-22, it was observed that the office of DG (Oil) submitted guaranteed payment either on account of short fall in Annual throughput, or Price differential claims, and other claims to the extent of Rs 19,014 million, but the PAO failed to incorporate the same in the Annual Budget Statements and only Rs 10,000 million were incorporated in the

Annual Budgeted Statement, which resulted in understatement of budget deficit Rs 9,014 million.

Audit was of the view that weak internal controls resulted in non-incorporation of PDC in Annual Budget Statement leading to understatement of budget deficit of Rs 9,014 million.

The matter was reported to the management in August, 2022. The management in its reply dated December 07, 2022 stated that Rs 19,014 million was demanded in the FY 2021-22, however only lump sum amount of Rs 10,000 million was allocated. The matter was taken up with Finance Division regularly for allocation of requisite funds.

DAC in its meeting held on December 28, 2022 directed the management to pursue the matter with Finance Division for allocation of requisite funds. DAC further directed to prepare the appropriate budget estimates according to provisions of PFM Act, 2019.

Audit recommends to take up the matter with Finance Division for allocation of requisite funds so that the budget documents may represent the fair picture of the receipts and allocation of funds.

[DP No. 1954]

***2.1.4.15 Non-incorporation of exchange losses in Annual Budget Statement on account of Foreign Exchange loan***

According to Rule 3(3) of Rules of Business, 1973, read with Sr. No. 29 Para 4(ii) of 2<sup>nd</sup> Schedule, the matters relating to the business of Federal Government shall be carried by the Ministries / Divisions, relating to Federal investments and undertakings wholly or partly owned by the Government in the field of oil, gas and minerals, excepting those assigned to the Industries and Production Division.

During audit of DG (Oil) for the FY 2021-22, it was observed that PSO was availing foreign exchange loan (FE-25) facility since 2015, on the advice of Finance Division. Due to availing this facility, the PSO had occurred exchange losses of approximately Rs 54.6 billion as on July 29, 2022, which was borne by government. Audit observed that no separate head of account for discharging of this exchange losses was available. In financial year 2019-20, the Petroleum Division after seeking approval of ECC paid Rs 27,890 million to PSO on

account of exchange losses. In the same line the ECC in case No. ECC-231/25/2022 dated July 31 2022 approved Supplementary Grant of Rs 30,000 million for PSO to meet its International Contractual Obligations. This resulted in non-incorporation of exchange losses in Annual Budget Statement on account of foreign exchange loan.

The matter was reported to the management in August, 2022. The management in its reply dated December 07, 2022 stated that Rs 19,000 million were demanded in the FY 2021-22, however, only Rs 10,000 million were allocated as lump sum. The matter was being taken up with Finance Division regularly for allocation of requisite funds. Audit contended that:

- i. Non-incorporation of exchange losses in Annual Budget Statement led to understatement of budget deficit;
- ii. As the expenditure was ab initio known to Petroleum Division, thus Supplementary grant was against the spirit of Article 84 of the Constitution; and
- iii. Delayed payment on account of committed cost put severe impact on liquidity of PSO.

DAC in its meeting held on December 28, 2022 directed the management to pursue the matter with Finance Division for allocation of requisite funds. DAC further directed to prepare the appropriate budget estimates according to provisions of PFM Act, 2019.

Audit recommends to implement the decision of DAC.

[DP No. 1955]

***2.1.4.16 Loss due to payment against shortfall in guaranteed annual throughput - Rs 4,471 million***

Pursuant to the Implementation Agreement (IA), a Fuel Transportation Agreement (FTA) was executed on May 13, 2004, between PSO and Asia Petroleum Limited (APL) for the supply of Residual Furnace Oil (RFO) to HUBCO whereby an annual guaranteed throughput of 1.5 million M. Tones was committed by PSO to APL in its Clause 1.1(e) and 6.1.1(f) at an agreed tariff (US\$ 12.13/tonne for first 19 years and thereafter, US\$ 8.49 per tonne). Further, according to Section 18.1 of agreement *ibid*, which would be valid till 2027.

GOP under Schedule-3 of the IA had provided a sovereign guarantee to pay for any shortfall in the above-guaranteed throughput.

During the audit of DG (Oil), Islamabad for the FY 2021-22, it was observed that Petroleum Division paid Rs 4,471 million to M/s Asia Petroleum Ltd. through PSO on account of shortfall in the annual guaranteed throughput of Residual Furnace Oil supplied for the period from October, 2019 to June, 2021. On the basis of merit order, the plant was not utilized in full capacity, which resulted in payment of guaranteed throughput of RFO to Asian Petroleum Ltd. was not met.

Audit was of view that defective consultative process in determining the merit orders resulted in loss of Rs 4,471 million.

The matter was reported to the management in August, 2022. The management in its reply dated December 07, 2022 stated that according to government's policy, Power Division had to utilize most economical energy efficient fuel for generating electricity depending upon the ranking of power plants in the Merit Order. Since, most of the time RFO for HUBCO plant did not qualify in the Merit Order, therefore, HUBCO plant was not operated in full capacity; as a result thereof, the guaranteed throughput of RFO was not met and shortfall was generated. Further, the matter had been taken up with Power Division for reconsideration of cost.

The DAC directed the management to pursue the case with Power Division and share the outcome with Audit.

Audit recommends to initiate consultative process for deciding merit order to make it more meaningful to avoid guaranteed payments.

[DP No. 1956]

#### ***2.1.4.17 Non-utilization of training fund - Rs 2,051.442 million***

According to Para 2 of Guidelines for Management and Utilization of Training Fund 2020, any unspent training amount generated under PCAs and PSAs maintained by DG (PC) shall be utilized for capacity building, strengthening of the Policy Wing of Ministry of Energy (Petroleum Division) and Natural Resources, Provincial Governments, relevant Government agencies, remunerations of outside professionals engaged on contract, part time legal

advisors/technical consultants and Policy promotional activities, workshops, seminars, conferences & symposia etc.

During audit of DG (PC) for the FY 2021-22, it was observed that DG (PC) did not incur any expenditure for capacity building, strengthening of the Policy Wing of Ministry of Energy (Petroleum Division) and Natural Resources, of the Provincial Governments. During the FY 2021-22 only Rs 64.294 million was utilized, mainly for the payment of salaries of consultants (legal advisers, Petroleum Economists, Assistant Manager Accounts etc.). The bank statement showed that an amount of Rs 2,051.442 million was available in this account as on June 30, 2022. This resulted in non-utilization of Rs 2,051.442 million on core objects of training funds.

Audit was of the view that non-observance of Policy Guidelines resulted in non-utilization of Training Fund of Rs 2,051.442 million. Similar nature paras were also pointed out in audit reports 2020-21 [Para No. 2.1.7.11] of Rs 600.226 million and 2019-20 [Para No. 2.1.7.23] of Rs 385.977 million.

The matter was reported to the management in November, 2022. The management in its reply dated December 05, 2022 stated that in order to develop an adequate system for utilization of training fund for its core purpose, currently comprehensive, sustainable and realist Training Fund Guidelines 2022 were in process, which had recommendations to set up a Training Cell headed by a Training Co-ordinator. Further, a Training Plan (2022-23) had been developed to equip 15 employees of Main Secretariat and 50 employees of Policy Wing (Petroleum Division) with the required Capacity Building Trainings related to Petroleum Industry, specific operational, technical, commercial and policy related functions.

DAC in its meeting held on December 28, 2022 directed the management to chalk out a training programme according to Policy Guidelines for capacity building of the Petroleum Division officers / officials within three months and share the same with Audit.

Audit recommends to implement the decision of DAC.

[DP No. 2098]

***2.1.4.18 Loss due to non-deposit of sale proceeds into Government Treasury - Rs 1,364.836 million***

According to Rule 69(2) of Pakistan Petroleum (Exploration and Production) Rules, 1986 when a lease has expired or has been surrendered wholly or partly, or use of installations and facilities has come to an end, the Government has the right to take over the permanent installations including related equipment in the lease area which are necessary for the production of Petroleum. This also comprises pipeline transportation and related facilities installed by the holder to secure the shipment.

During audit of DG (PC) for the FY 2021-22, it was observed that M/s OMV Maurice Energy Ltd. being the operator of Rehmat Development and Production Lease, surrendered the Permanent Installations and related equipment including the Plant to the Government of Pakistan on the termination of lease. The DG (PC) vide letter No. Prod-2 (98)/2006 dated June 30, 2016 nominated and authorized GHPL to act on behalf of Ministry and take possession of the permanent installation and related equipment and take decision for utilization / disposal of the same on commercial consideration. GHPL through open bidding auctioned the plant to PPL on “as is where is” basis. But record of the DG (PC) did not show the deposit of sale proceeds into Government treasury. While, accounts of the GHPL for the year 2016-17 showed the other income of the company on accounts of sales of Rehmat Gas Processing Plant. Audit holds that although GHPL was owned by the Federal Government, but handing over the plant and retaining the sales proceeds by the company on the direction of DG (PC) was not covered under the prevailing rules. Non-deposit of sale proceeds into Government treasury and reporting the sale proceeds as income of the GHPL resulted in to loss of Rs 1,364.836 million to Government exchequer.

Audit was of the view that non-observance of rules and not taking the issues at competent fora resulted in loss Rs 1,364.836 million to Government exchequer.

The matter was reported to the management in November, 2022. The management in its reply dated December 05, 2022 stated that GHPL had been directed to deposit the sale proceeds of Rehmat D&PL Lease Plant into the Government treasury.

DAC in its meeting held on December 28, 2022 directed the management to ensure deposit of amount (in US\$) within 15 days and get the same verified from Audit.

Audit recommends compliance of decision of DAC.

[DP No. 2099]

#### **2.1.4.19 Non-utilization of funds for capacity building - Rs 600.087 million**

According to Section V of Pakistan Petroleum Exploration and Production Policy, 2012 the funds generated through sale of technical data and unspent training amount generated under PCAs and PSAs shall be utilized for capacity building, strengthening of the Policy Wing and Ministry.

During audit of DG (PC) for the FY 2021-22, it was observed that funds of Rs 600.087 million was so far generated from the sale of technical data since 1991, but no mechanism was available in the Ministry for the utilization of these funds for its core purpose. These funds were available into Federal Treasury Account and National Bank of Pakistan as detailed below:

(Rs in million)	
Federal Treasury	278.788
National Bank of Pakistan	321.299
<b>Total</b>	<b>600.087</b>

The non-spending of funds resulted in blockage of funds.

Audit was of the view that non-observance of ibid Policy resulted in non-utilization of Rs 600.087 million for capacity building.

The matter was reported to the management in November, 2022. The management in its reply dated December 05, 2022 stated that matter regarding utilization of funds from sale proceeds was still pending due to Account maintenance dispute between Finance Division, CGA and DG (PC) office. According to Section V of the Petroleum Policy 2012, the funds generated through the sale of technical data shall be utilized for capacity building, strengthening of Policy Wing Petroleum Division and this should not be part of Government Revenue.

DAC in its meeting held on December 28, 2022 directed the management to pursue the matter with Finance Division / CGA for finalizing a mechanism for utilization of funds within a month and share the outcome with Audit.

Audit recommends that comprehensive plan be devised for utilization of these fund for its core objects or otherwise surrender it to government exchequer.

[DP No. 2100]

#### **2.1.4.20 Non-realization of Production Bonus –Rs 286.451 million**

According to Section 4.1.2 of Petroleum Policy, 2012, Production Bonus of US\$ 600,000 will be payable on a concession area on commencement of commercial production.

During audit of DG (PC) for the FY 2021-22, it was observed that DG (PC) did not recover production bonus of US\$ 600,000 from M/s UEPL and OGDCL in respect of commencement of commercial production from Digri (2568-19 Zone-III) and Togh & Togh Bala fields. This caused non-realization of production bonus of US\$ 1,200,000 equivalent to Rs 286.451 million.

Audit was of view that weak regulatory oversight resulted in non-realization of Production Bonus of Rs 286.451 million. Similar nature paras were also pointed out in audit reports 2021-22 [Para No. 2.3.4.6], 2020-21 [Para No. 2.1.7.9] of Rs 2,124.731 million, and 2018-19 [Para No. 2.1.5.15] of Rs 1,291.470 million.

The matter was reported to the management in November, 2022. The management in its reply dated December 05, 2022 stated that M/s United Energy Pakistan (UEP) deposited US\$ 600,000 which was verified by Audit, while the remaining amount was under recovery.

DAC in its meeting held on December 28, 2022 directed the management to expedite the recovery of balance amount of US\$ 600,000, and get it verified from Audit within a week. Para reduced to the extent of verified amount of US\$ 600,000.

Audit recommends that recovery of balance amount be expedited besides strengthening of its internal controls.

[DP No. 2102]

#### **2.1.4.21 Non-realization of Training Fund - Rs 201.734 million**

According to Annexure 3 of Pakistan Petroleum (Exploration and Production) Policy, 2012 the E&P companies shall incur US\$ 50,000 per year on training of local inhabitants according to training guidelines issued by the DG

(PC) during Exploration and Production phase. Further, Para 4 (i & iii) of the Guidelines for Management and Utilization of Training Fund 2020, issued vide letter dated March 16, 2020, 30% of the annual obligation shall be deposited in DG (PC) Training Fund Bank Account and 40% shall be earmarked by the Operator for training of their Pakistani national employees. In case, the Operator fails to utilize the training fund according to the approved program, a case for carry forward of such unutilized amount shall be submitted to DG (PC).

During audit of DG (PC) for the FY 2021-22, it was observed that OGDCL and PPL did not pay the 30% of training fund in respect of seven Blocks. It was also observed that both companies neither utilize 40% share of training fund obligations nor this amount was deposited in to DG (PC) account. This resulted in non-payment of training fund Rs 201.734 million.

Audit was of view that weak regulatory oversight resulted in non-realization of Training Fund of Rs 201.734 million.

The matter was reported to the management in November, 2022. The management in its reply dated December 05, 2022 stated that matter was subjudice and company was paying the Social Welfare Obligation according to old Policy 1994 / 1997 and would pay the balance amount after the settlement of issue from the court. Last date of hearing was June 30, 2022 and next date was in office. OGDCL explained that the company had already spent its share, but the company failed to feed data into newly adopted ERP. In case of PPL, the company endorsed that an amount of US\$ 289,635 was still lying unspent.

DAC in its meeting held on December 28 to 30, 2022 and January 11, 2023 directed the management to pursue the court case vigorously. Para was reduced to the extent of recovered/not due amount duly verified by Audit of Rs 1.3 million. DAC also, directed the management to share the latest position and get it verified from Audit. DAC further directed the management to continue to take the matter with DG (PC).

Audit recommends to implement the decision of DAC.

[DP Nos. 2110, 2248 & 2303]

***2.1.4.22 Non / short-realization of License and Lease Rent from E&P companies - Rs 122.561 million***

According to Pakistan Petroleum (Exploration and Production) Rules 2001, 2009 & 2013, the licensee shall pay to the Government annually an advance Rent at prescribed rates for onshore and offshore areas.

During audit of DG (PC) for the FY 2021-22, it was observed that in 96 cases, the DG (PC) either did not recover or short recover the license and lease rent from the concerned E&P companies. This resulted in non / short realization of Rent amounting to Rs 122.561 million.

Audit was of view that weak monitoring resulted in non / short realization of rent amounting to Rs 122.561 million. Similar nature paras were also pointed out in audit reports 2021-22 [Para No. 2.1.4.9] of Rs 46.917 million, 2020-21 [Para No. 2.1.7.3] of Rs 147.811 million, 2019-20 [Para No. 2.1.7.24] of Rs 67.570 million and 2018-19 [Para No. 2.1.5.20] of Rs 118.870 million.

The matter was reported to the management in November, 2022. The management in its reply dated December 05, 2022 stated that an amount of Rs 2.807 million had been recovered, and amount of Rs 35.891 million was not due. Recovery of Rs 46.919 million was in process.

DAC in its meeting held on December 28, 2022 directed the management to recover the balance amount and get the same verified from Audit within 15 days. Para was reduced to the extent of verified and not due amount.

Audit recommends recovery of license and lease Rent besides improving monitoring system.

[DP Nos. 2105 & 2109]

***2.1.4.23 Non / short deposits of Social Welfare Obligations - Rs 491.943 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 Social Welfare Guidelines, 2021, 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<sup>st</sup> January each year. The amount of Social Welfare Obligations pledged by the companies in their respective agreement and deposited in the joint account

opened for the purpose are required to be utilized to give lasting benefits to the communities, where exploration is being carried out.

During audit of DG (PC) for the FY 2021-22, it was observed that six E&P either companies did not deposit or short deposited Social Welfare Obligation in the joint accounts of the concerned DCO/DCs accounts. It was further, observed that OGDCL deposited Social Welfare Obligation in the joint accounts of the concerned DCO/DCs late ranging from 26 days to 162 days, but no Clause existed for charging the late payment surcharge. This resulted in non/short-realization of Social Welfare Obligation Rs 491.943 million during FY 2021-22.

Audit was of view that non-observance of Policy guide lines resulted in non/short-realization of Social Welfare Obligation of Rs 491.943 million. Similar nature paras were also pointed out in audit reports 2021-22 [Para No. 2.3.4.6] of Rs 1,985 million, 2020-21 [Para No. 2.1.7.12] of Rs 245.771 million, 2019-20 [Para No. 2.1.7.25] of Rs 112.190 million and 2018-19 [Para No. 2.1.5.20] of Rs 61.550 million.

The matter was reported to the management in September & November, 2022. The management in its reply dated December 05, 2022 stated that E&P Companies had been directed to deposit the amount. In case of OGDCL, it was explained that payment was made at the prevailing exchange rate on the day of payment. Further, in some cases the matter was sub-judice. An amount of Rs 5.71 million was recovered and the same was verified by Audit.

DAC in its meeting held on December 28, 29 and 30, 2022 directed the management to recover the amount and get the same verified from Audit within 15 days. The DAC further directed to pursue the court cases vigorously and reduced the para to the extent of recovered and verified amount. In case of charging of late payment surcharge on late deposit of Social Welfare Obligation, the DAC directed the management to take up the matter with DG (PC) for inclusion of LPS Clause.

Audit recommends to implement the decision of DAC.

[DP Nos. 2020, 2016, 2304, 2104 & 2106]

#### ***2.1.4.24 Non-performance of mandatory functions by DG (PC)***

According to E&P Rules, the Government has to take certain action on the existing of certain conditions, for example Rule 39(e) of Pakistan Petroleum (Production) Rules, 1949, empowers the Government to exercise the right to cancel the license or lease if the licensee or lessee violates the undertaking given in accordance with Rule 4(6) or fails to remedy any breach of the provisions of the license or lease within the period of three months from the date such breach is brought to his notice by the Director of Petroleum, provided that such breach be not the subject of any question or dispute under reference to Government or under arbitration in accordance with Rule 40. Further, the Rule 69(2) of Pakistan Exploration and Production Rules, 1986 provides that when a lease has expired or has been surrendered wholly or partly, or the use of installations and facilities has come to an end, the Government has the right to take over the permanent installations.

During audit of DG (PC) for the FY 2021-22, it was observed that DG (PC) failed to perform its mandatory functions such as:

- i. M/s PEL continuously committed breach of contract by non-payment of Royalty since 2016 and extracting hydrocarbons from the expired leases and DG (PC) failed to revoke the leases;
- ii. Data base had shown that 61 leases were expired which were to be dealt either by taking over the permanent installations into government ownerships and dispose of accordingly or in case of producing fields, these may be renewed or regranted whatever the case may be;
- iii. The DG (PC) was ignorant of conducting of joint venture audit by operator of Block 22, for the period from FYs 2012-13 to 2019-20, this revealed that operator got the accounts audited from the firm of chartered accounts, which was not approved by the operating committee and even the Regulator was not aware of execution of audit. It is also important to mention here that DG (PC) did not take into accounts violation pointed out in audited accounts by the auditors.

This all revealed weak monitoring by the DG (PC) and not initiating any action for non-observance of terms of agreements between the working interest owners.

Audit was of view that DG (PC) being the Regulator of upstream activities failed to discharge its mandatory functions which had a serious implication.

The matter was reported to the management in November, 2022. The management in its reply dated December 05, 2022 explained that in case of material breach of contract, it was informed PEL had not discharged financial obligation, therefore, the request of extension of this lease was not entertained and the company was advised to clear outstanding obligations with ten (10) days, however, the company failed to do so. In one case the company requested for incentive of marginal field as the fields were un-economical to produce at prevailing price. In case of expired leases it was explained that due to certain unavoidable circumstances, reasonable time was required to decide way forward of the Leases. DG (PC) was holding regular meeting with E&P companies and PPEPCA on various issues to resolves the same in a prudent manner in accordance with applicable Rules. Moreover, PEL had been directed to conduct subject audit by appointing a reputable audit firm in consultation with all the JV Partners from the period from FYs 2012-13 to 2019-20 and submit reports within 30 working days.

DAC in its meeting held on December 28, 2022 directed the management to resolve the matter regarding recovery of outstanding amount in consultation with Law Division and FBR within 15 days and share the outcome with Audit. DAC further, directed the management to submit a detail report regarding settlement of all pending leases within a month.

Audit recommends to implement the decision of DAC.

[DP Nos. 2114, 2115 & 2116]

#### ***2.1.4.25 Non-renewal of license agreement of land of LPG plant with NRL***

According to Clause 3 of Agreement of PSO with National Refinery Limited (NRL) signed on August 01, 2000, licensee can get extension in period of licence for further period ending on July 30, 2015 and if license is not renewed, the licensee shall have the right to remove all such buildings, fixtures, erections or buildings materials as vested in him within three calendar months from the date of such expiry or determination.

During audit of PSO for the FY 2021-22, it was observed that LPG Plant at Korangi was located at the land owned by NRL through an arrangement vide license agreement dated March 10, 1981 with an initial period of 15 years which expired on March 09, 1996 and was further extended up to July 30, 2015. The management of PSO took this matter with NRL for an extension of the agreement for the period of at least 8 years, however, agreement could not be extended. Thus, the PSO was carrying on business activity without any formal agreement and due to non-extension of agreement LPG business of PSO was also at risk.

Audit was of the view that weak internal controls resulted in non-renewal of licence agreement with NRL putting LPG business at risk.

The matter was reported to the management in October, 2022. The management in its reply dated January 09, 2023 stated that High Court of Sindh had ordered that PSO should not be dispossessed / evicted from the said property without due process of law.

The DAC in its meeting held on January 09, 2023 directed the management to pursue the case with court.

Audit recommends to implement the decision of DAC besides to share long term plan for re-location of plant.

[DP No. 1982]

#### ***2.1.4.26 Non-compliance of Public Accounts Committee (PAC) directives***

According to Para 1 of National Assembly Secretariat (Public Accounts Committee Wing) OM No. P.10 (4&7)/2012-PAC dated September, 03 2012, the Public Accounts Committee directed in its meeting held on August, 29 2012 that the agenda and minutes of all the meetings of all the Executive Boards of all the State Corporations/ Concerns, Autonomous and Semi-Autonomous Bodies, the audit of which may be conducted by the Auditor-General of Pakistan, must be brought on the websites of the said organizations immediately before and after holding the said meetings, accordingly. Part-2 states that the Compliance Report on the above directives may be furnished to this Secretariat for the perusal of Public Accounts Committee.

During audit of PSEs for the FY 2021-22, it was observed that the management did not follow the directives of the Public Accounts Committee.

The agenda and minutes of all the meetings Board and its sub committees were not uploaded / placed on the company's websites. This resulted in non-compliance of PAC directions which was a serious lapse on the part of management of PSEs.

Audit was of the view that due to negligence of managements of the PSEs, the desired information was not available at website.

The matter was reported to the management in October, 2022. In DAC meetings held in December, 2022 and January, 2023 the management of PSEs stated that there was no requirement in the Corporate Governance Rules, 2013 for uploading of BoD minutes on websites. Audit contended that PSEs were bound to upload the agenda and minutes of all the meetings of all the Executive Boards of all the State Corporations / Concerns, Autonomous and Semi-Autonomous Bodies, as envisaged in Para 1 of National Assembly Secretariat *ibid*.

The DAC directed the management of PSEs to ensure the compliance of PAC directives.

Audit recommends the implementation of the decision of DAC.

[DP Nos. 2054, 2300, 2193, 2226, 2310, 2309, 1871 & 2067]

## **Geological Survey of Pakistan**

### ***2.1.4.27 Unjustified payment of contingent advances to the employees – Rs 28.394 million***

According to O.M No.TM/Assmnt/A/C/1285, dated October 06, 1982 of Accountant General, Pakistan Revenues Sub-Office Quetta, General Financial Arrangement of GSP was authorized subject to condition that no money would be drawn from the Assignment Account unless they are required for immediate disbursement or have already been spent out of permanent advance or imprest.

During audit of GSP, Quetta, it was observed that in 25 cases, an amount of Rs 28.394 million was sanctioned to various officers / officials as "contingent advances" during the period 2016 to 2020 without any logical reasons. Later on, these funds were adjusted through different bills after keeping these amounts in private accounts for a period ranging from 4 to 38 months. Further, no proof of payments made to vendors / suppliers was placed on record in respect of these

advances. This resulted into irregular payment of contingent advances and keeping of public money into the private accounts of employees Rs 28.394 million.

Audit was of the view that weak financial and internal control led to the irregular payment of contingent advances to employees and the retention of public money into private accounts.

The matter was reported to management in October, 2022. The management in its reply dated January 02, 2023 explained that GSP was a research-based organization that reports to the Petroleum Division. Research was conducted throughout drilling operations mainly for mineral discoveries.

DAC in its meeting held on January 11, 2023 directed the management to conduct fact finding inquiry and submit the report to Audit within three months.

Audit recommends to implement the DAC directives.

[DP No. 2236]

## **Hydrocarbon Development Institute of Pakistan**

### ***2.1.4.28 Potential loss due to undue delay in execution of contract - Rs 1,612.599 million***

According to Para 6 of the Hydrocarbon Development Institute of Pakistan (HDIP) Act 2006, the Board of Governors shall have the power to supervise, control, direct, and regulate the affairs of the Institute. Further, in compliance with Para 4.4 of the 25<sup>th</sup> 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 for the FYs 2020-21 & 2021-22, it was observed that the BoG decided to lease out the four CNG stations located at Lahore, Islamabad, Quetta & Peshawar for 15 years. A tender was floated in the Newspaper on 05.07.2018 and after codal formalities, M/s Attock Petroleum Ltd, Rawalpindi was declared the highest bidder who deposited Rs 40 million (non-refundable) and 4.506 million per month rent with 5% annual increase up to initial 03 years and thereafter 10% increase for next twelve (12) years. However, despite lapse of more than 04 years, the management failed to hand over the

CNG stations to the successful bidder, resultantly, sustained potential loss of Rs 1,612.599 million aggregated amount of rent and non-refundable security.

Audit was of the view that non-handing over of the CNG stations to the successful bidder due to ineffective decision-making caused potential loss of Rs 1,612.599 million. Similar nature paras were also pointed out in audit reports 2019-20 [Para No. 2.1.7.29] of Rs 54.066 million and 2020-21 [Para No. 2.1.7.21] of Rs 54.066 million.

The matter was reported to the management in September 2022. The management explained that HDIP had also filed a suit in Islamabad High Court in response to APL and next date of hearing was February 23, 2023.

The DAC in its meeting held on December 27, 2022 directed the management to pursue the court case vigorously.

Audit recommends to pursue the court case vigorously and share its outcome with Audit.

[DP No. 2068]

***2.1.4.29 Non-recovery of sample testing fee from OMCs and various other departments – Rs 93.888 million***

According to Section 9(f) of the Hydrocarbon Development Institute of Pakistan Act 2006, the fund of the Institute shall consist of fees and charges for the services rendered.

During audit of HDIP for the FYs 2020-21 & 2021-22, it was observed that certain Oil Marketing Companies (OMCs) and departments availed sample testing services from HDIP Labs. However, the amount/fee of 976 tests was still outstanding from OMCs/ various departments. This resulted in non-recovery of testing fee of Rs 93.888 million.

Audit was of the view that poor financial management resulted in non-recovery of testing fee amounting to Rs 93.888 million.

The matter was reported to the management in September, 2022. The management in its reply dated October 11, 2022, stated an amount of Rs 56.734 million had been recovered. Moreover, the credit policy and late payment surcharge policy shall be shared with Audit.

The DAC in its meeting held on December 27, 2022 reduced the para to the extent of recovered amount and directed to recover the balance amount besides getting the stated stance verified from Audit.

Audit recommends to implement the decision of DAC.

[DP No. 2073]

#### ***2.1.4.30 Unjustified operational losses on CNG stations - Rs 89.808 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 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 45.183 million on account of salaries and allied expenses without earning any sales revenue. Further, HDIP CNG Station, Quetta sustained losses of Rs 44.625 million for the last six consecutive years from 2016-17 to 2021-2022, however, the management did not take sufficient steps to make the CNG station profitable or close it down. This resulted unjustified operational losses of Rs 89.808 million on both CNG stations.

Audit was of the view that negligence of management resulted in unjustified operational losses of Rs 89.808 million on CNG stations. Similar nature para was also pointed out in audit reports 2019-20 [Para No. 2.1.7.30] of Rs 36.212 million.

The matter was reported to the management in September, 2022. The management in its reply dated October 11, 2022, stated that the reasons of loss were old equipment installed at Quetta CNG station which required high replacement cost, operational hours 12 in a day, electricity load shedding and smuggled gasoline available in Quetta, therefore, customers shifted to gasoline. Further, case to outsource the CNG station Lahore was pending with Honorable Islamabad High Court and case of extension of lease of Quetta CNG station was pending with Honorable Supreme Court of Pakistan.

The DAC in its meeting held on December 27, 2022 directed the management to provide relevant record to Audit for verification and pursue the court cases vigorously.

Audit recommends to implement the decision of DAC.

[DP Nos. 2069 & 2071]

***2.1.4.31 Possible loss due to non-up-gradation of existing infrastructure for testing of LPG Cylinders at Islamabad - Rs 45 million***

According to section 4(p) of the Hydrocarbon Development Institute of Pakistan Act, 2006 the HDIP will establish laboratories, facilities, and infrastructure anywhere in Pakistan, and to take all steps and measures which are necessary to promote, implement and undertake assignments and tasks to fulfill its objectives and functions. Further, to act as an organization for checking of quality, standards, and specifications of hydrocarbons including crude petroleum, petroleum products, liquefied petroleum gas, and natural gas.

During audit of HDIP for the FY 2019-20, it was observed that the management placed the matter of facility of testing LPG cylinder in the BoG meeting dated November 17, 2017, as an agenda item for seeking permission to undertake LPG Cylinder testing functions. The management explained to the Board that Rs 15.0 million would be required to upgrade the existing lab infrastructure within one year with expected annual revenue of Rs 9 million (Approx.) aggregating to Rs 45 million up to 2022 with existing manpower. The Board approved the proposal and allowed HDIP to undertake testing functions in collaboration with the public-private sector until its own lab becomes operational. However, since 2017 the management neither took steps to attract bidders to acquire the lab services from the private sector nor established / upgraded existing infrastructure for testing of LPG cylinders in its own Lab. This resulted in a possible loss of revenue of Rs 45 million.

Audit was of the view that non-establishment / up-gradation of existing infrastructure for testing of LPG Cylinders at Islamabad resulted in possible loss of revenue of Rs 45 million.

The matter was reported to the management in September, 2022. The management in its reply dated October 11, 2022, stated that the matter was taken up with OGRA through MoE (PD) and it was requested to OGRA to assign the

exclusive task of LPG cylinder testing to HDIP, however, OGRA being regulator did not allow. Reply was not tenable as same was in contradiction to the agenda proposed before the BoD in its meeting dated November 17, 2017. Moreover, since 2017 the management did not take steps to acquire the lab services from the private sector nor established / upgraded existing infrastructure for testing of LPG cylinders as approved by the Board.

The DAC in its meeting held on December 27, 2022 directed the management to establish/upgrade the existing infrastructure of testing of LPG cylinders at Islamabad.

Audit recommends to implement the decision of DAC.

[DP No. 2070]

#### ***2.1.4.32 Excess charging of crude oil testing fee - Rs 28.800 million***

According to Section 9(f) of the Hydrocarbon Development Institute of Pakistan Act 2006, the fund of the institute shall consist of fees and charges for the services rendered and sampling collection charges of imported crude oil is fixed at Rs 30,000.

During audit of HDIP for the FYs 2020-21 & 2021-22, it was observed that HDIP, Karachi charged Rs 60,000 per sample per tank instead of the approved rate of Rs 30,000. This resulted in excess charging of crude oil testing fees amounting to Rs 28.800 million.

Audit was of the view that weak internal control resulted in excess charging of testing fees of crude oil by HDIP.

The matter was reported to the management in September, 2022. The management in its reply dated October 11, 2022, explained that the stance of Audit was correct and disciplinary proceeding would be initiated against the responsible.

The DAC in its meeting held on December 27, 2022 directed the management to conduct inquiry and fix responsibility on the person(s) at fault within three months.

Audit recommends to implement the decision of DAC.

[DP No. 2075]

#### **2.1.4.33 Irregular promotion of HDIP employees from ESG-1 to ESG-2 and ESG-3 to ESG-4**

According to Clause 3.9 of HDIP Employees Service Regulations, 2017, an employee inducted on the basis of Matric, Intermediate or Diploma will only be eligible for promotion to higher management grades i.e. from ESG-1 to ESG-2 if he / she has acquired a master degree in a relevant discipline. Further, the Board vide its decision No. 24/10 advised that basic qualification of the post would be a pre-requisite for promotion from ESG-1 to 2 for all cadres. Furthermore, according to Clause 3.12(7) of Regulations *ibid*, promotion from ESG-3 to ESG-4 required 12 years' service in ESG-2 and above or 7 years' service in ESG-3 in case of direct recruitment in ESG-3 in this institute.

During audit of HDIP for the FYs 2020-21 & 2021-22, it was observed that HDIP promoted five (05) employees from ESG-1 to ESG-2 during 2019 without observing the requisite master's degree qualification as prescribed in the HDIP Employees Service Regulations, 2017. This resulted in irregular promotions of employees from ESG-1 to ESG-2. Moreover, one employee was promoted from Senior Chemist ESG-3 to Principal Chemist ESG-4 on June 19, 2019 without completion of prescribed length of service of 12 years. At the time of promotion total length of service of the said officer was 11 years and 02 months hence, he was not eligible for promotion.

Audit was of the view that weak internal controls resulted in irregular promotion of employees.

The matter was reported to the management in September, 2022. The management in its reply dated October 11, 2022, stated that the condition of qualification required for promotion from ESG-1 to ESG-2 (i.e. Grade-16 to 17) was prescribed in the HDIP Employees Service Regulations, 2017 and was observed. Reply was not tenable as employees were promoted without observing the qualification as prescribed under the Service & Financial Rules, 2017. In other case, it was replied that the officer was appointed on January 12, 2004 as a Chemist (BS-17) on contract basis and after that her services were regularized on October 14, 2006 by the Board of Governors. Reply was not tenable as Board of Governors had no powers to regularize the services of any employee under HDIP Act, 2006.

The DAC in its meeting held on December 27, 2022 directed the management in first case to prepare the Revised Service Rules for up-graded post besides regularization of promotion made without finalization of revised rules from BoG. In case of promotion from ESG-2 to ESG-3, management was directed to seek clarification from Establishment Division regarding regularization of contract employment.

Audit recommends to implement the decision of DAC.

[DP Nos. 2095 & 2096]

#### ***2.1.4.34 Non-preparation of procurement plan of the HDIP since inception***

According to Clause 6 of PPRA Rules, 2004 all procuring agencies shall devise a mechanism, for planning in detail for all proposed procurements with the object of realistically determining the requirements of the procuring agency, within its available resources, delivery time or completion date and benefits that are likely to accurate to the procuring agency in future. Moreover, a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurement so planned. The annual requirements thus determined would be advertised in advance on the Authority's website as well as on the website of the procuring agency in case the procuring agency has its own website.

During audit of HDIP for the FYs 2020-21 & 2021-22, it was observed that the management failed to prepare any procurement plan since its inception. In the light of Clause 6 of Rules *ibid*, it was responsibility of the management of HDIP to prepare its procurement plan each year besides a project-wise plan which should include procurement process, procurement needs, project timeline, vendor management, payment method and risk management (target & achievement) etc.

Audit was of the view that weak internal controls resulted in non-preparation procurement plan.

The matter was reported to the management in September, 2022. The management in its reply dated October 11, 2022 stated that Financial Powers had been delegated to the GMs / OICs of regional offices. Procurements were made by observing PPRA Rules and procurement plan would be completed up to

January, 2023. Reply was not tenable as preparation of annual procurement plan mandatory requirement under PPRA Rules, 2004 which were not prepared by management.

The DAC in its meeting held on December 27, 2022 directed the management to conduct internal inquiry for non-compliance of provisions of PPRA Rules and fix the responsibility on the person(s) at fault within a month.

Audit recommends to implement the decision of DAC.

[DP No. 2082]

#### ***2.1.4.35 Potential loss to Government due to non-establishment of LPG testing lab***

According to Cabinet Committee on Energy (CCOE) meeting held on January 08, 2019 vide Case No. CCOE 24-06/2018/Para-II directed the Petroleum Division to explore the possibility of the establishment of a laboratory at Taftan Border to check the quality of imported LPG.

During audit of HDIP for the FYs 2020-21 & 2021-22, it was observed that case for setting up a quality control lab at Taftan border was initiated by the MoE (PD) vide letter dated October 02, 2017. Moreover, OGRA vide letter dated January 28, 2022 issued NOC for the establishment of LPG testing lab to carry out checking of LPG quality/specifications imported through border areas. In this regard, HDIP had already procured required equipment for LPG testing in its PSDP Project for the up-gradation of Petroleum Oil and Lubricants testing facilities at Islamabad, Lahore, Multan, Karachi, Peshawar, and Quetta. Saindak Metals Limited (SML) was requested for the provision of at least 3-4 Rooms with allied facilities at Saindak which was only 35 Km from Taftan. Although, SML gave positive signals in this regard, however, HDIP failed to establish the LPG testing lab facility at Taftan (Iran Border) so far.

Audit was of the view that non-compliance with instructions of CCOE resulted in import of poor quality of LPG and potential revenue loss.

The matter was reported to the management in September, 2022. The management in its reply dated October 11, 2022, stated that HDIP took the matter with Petroleum Division for issuance of Policy Guidelines to OGRA to approve HDIP as TPI for testing of LPG at Taftan. According to direction of

OGRA, HDIP participated in the bid but the same was rejected by OGRA. The matter was being pursued with OGRA. Further Custom Authorities Quetta had allowed HDIP for quality testing of LPG in Quetta after sample collection from Taftan. Reply was not tenable as direction of Cabinet Committee on Energy (CCOE) should have been complied without delay.

The DAC in its meeting held on December 27, 2022 directed the management to expedite establishment of LPG testing Lab at Taftan.

Audit recommends to implement the decision of DAC.

[DP No. 2076]

## **Ministry - Expenditure**

### ***2.1.4.36 Less recovery of rent from PSEs housed at Petroleum House Islamabad - Rs 36.351 million***

According to O.M No.F.12(65)/2011-Policy dated March 27, 2017 regarding revision of hiring rates for office accommodation at Islamabad, Rawalpindi, Karachi, Lahore, Peshawar and Quetta, the 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 fix for basement @ Rs 40 per Sq. ft and for other floors @ Rs 60 per Sq. ft. Further, Para 26 of GFR Vol-I read with Para 286 states that no land / building belonging to Government may be sold or made over to a local authority, private party or institution for public, religious, educational or any other purpose, except with the previous sanction of Government.

During audit of Directorate General of Admn / Policy Wing (Ministry of Energy) Islamabad, for the FYs 2019-20 to 2021-22, it was observed that Ministry allotted / provided accommodations to various PSEs in the Petroleum House, Islamabad on rental basis. The monthly rent of Rs 36.351 million was lying outstanding against these organizations since the occupation as detailed below:

(Rs in million)				
Sr. No.	Name of PSEs	Amount outstanding since occupation	Amount recovered	Amount recoverable as on June 30, 2022
1	ISGS	79.009	60.873	18.136
2	GHPL	83.211	73.340	9.871

3	PLL	45.850	37.506	8.344
			<b>Total</b>	<b>36.351</b>

Audit observed the following irregularities:

- i. Lease agreements with companies / organizations housed in petroleum house were not available in the local office;
- ii. 25% extra rent was not charged from companies being a high rise and centrally air-conditioned building; and
- iii. The maximum increase in rent 25% after 3 years or 10% per annum policy was not followed according to O.M of Finance Division No.4(7)R-14/07 dated June 10, 2019; and
- iv. Non / Less Recoveries were made from companies/ organizations since the occupation.

Audit was of the view that less recovery of rent resulted in loss to Government exchequer.

The irregularity was pointed out to the department in August, 2022. The management in its reply dated December 28, 2022 stated that PSEs were housed in Petroleum House on rental basis as a bilateral / temporary arrangement without having signed formal agreements in the absence of completion certificate and formal handing-taking over of Petroleum House building. SOEs were being rented @ Rs 60/sq. ft in accordance with referred OM of Ministry of Housing & Works dated March 27, 2017 w.e.f. March 17, 2017. The reply was not tenable as the SOEs housed in Petroleum House were providing cleaning and security services so that less rent was charged. The management did not follow the standing rules for rent charges.

The DAC in its meeting held on December 28, 2022 directed the management to expedite recovery of amount within one month.

Audit recommends to implement the decision of DAC.

[DP No. 1970]

## 2.2 Oil and Gas Development Company Limited

### 2.2.1 (A) Introduction

Oil and Gas Development Company Limited (OGDCL) was established in 1961 as a public sector corporation which was converted into a public limited company on October 23, 1997 under the Companies Ordinance, 1984 (now Companies Act, 2017). The company is engaged in exploration and development of oil and gas resources, production and sale of oil and gas and related activities. OGDCL is registered with Pakistan Stock Exchange and London Stock Exchange. GoP holds 85.02 % paid-up capital of the company as on June 30, 2022.

### 2.2.1 (B) Comments on Company Performance

Exploration, Production and Financial performance of the OGDCL during FY 2021-22 is given below:

#### i. Drilling and Exploration Activities

Name of Activity	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Exploration Licenses	58	51	49	51	59	57
Development & Production Lease	69	72	79	76	77	77
2D Seismic Survey -Line KM	4,034	2,073	1,324	3,407	2,539	2,003
3D Seismic Survey -Line KM	1,153	792	620	-	600	601
<b>Total Seismic Survey</b>	<b>5,187</b>	<b>2,865</b>	<b>1,944</b>	<b>3,407</b>	<b>3,139</b>	<b>2,604</b>
Well Drilled (Exploratory Appraisal, Development)	22	20	16	25	20	7
Cost of Dry & Abandoned Well (Rs in million)	4,027	10,086	6,092	10,026	8,373	7,657
Prospecting Expense	9,242	6,104	6,408	8,187	8,994	7,929
<b>Exploration and Prospecting Expenditure (Rs in million)</b>	<b>13,269</b>	<b>16,190</b>	<b>12,499</b>	<b>18,213</b>	<b>17,366</b>	<b>15,586</b>
Cost (Rs million) Per Line KM	1.78	2.13	3.30	2.40	2.87	

(Source: Annual Audited Account)

## ii. Financial Performance

		2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
<b>Quantity Sold</b>							
Crude Oil	'000' barrels	15,744	14,867	14,555	12,919	13,230	12,528
Gas	MMCF	383,692	373,192	370,217	326,879	317,443	301,286
LPG	Tons	164,407	250,984	294,167	269,806	293,310	294,619
Sulphur	Tons	23,800	24,800	20,900	19,000	24,000	15,800
<b>Financial Results (Rs in billion)</b>							
Net Sales		171.83	205.34	261.48	232.93	239.10	335.46
Other Revenues		17.85	19.08	37.15	39.88	20.27	50.69
Trade-debt		118.575	163.691	242.731	307.563	358.821	456.594
Overdue amount - Circular Debt		82.707	121.131	194.179	262.459	303.853	393.170
Profit before Taxation		89.14	112.63	176.60	144.36	128.99	232.52
Profit for the Year		63.80	78.74	118.39	100.94	91.53	133.78

(Source: Annual Audited Account)

Production and volumetric sales of hydrocarbons remained stagnant during the period whereas sales revenue had increased due to positive effect of foreign exchange because crude oil prices were linked to a basket of Middle East crude oil prices (Brent in US\$).

Delay in completion of ongoing development projects, declining exploration, creaming out of major fields, leads inventory (unexplored) in portfolio and low off-takes of permeate (off-specs) gas by IPPs from gas fields were few of the many challenges company was facing during the period.

Trade Debt had increased to 375% (from Rs 82.707 billion in 2017 to Rs 393.170 billion in 2022) due to inter-corporate circular debt. These were receivable from oil refineries, gas and power companies.

### 2.2.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 11,664.686 million were raised during the current audit of OGDCL. This also includes recoverable amount of Rs 3,115.952 million as pointed out by Audit. Summary of the audit observations classified by nature is as follows:

### Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Project Management	3,129.482
B	HR / Employees Related Irregularities	1,248.057
C	Joint Venture Related Issues	1,250.056
D	Contract Management	279.859
E	Procurement and Store Management Related Irregularities	3,706.410
F	Receivables / Financial Management	324.629
2	Others	1,726.193

### 2.2.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
1994-95	19	14	5	74
1995-96	13	11	2	85
1998-99	9	4	5	44
1999-00	11	8	3	73
2000-01	29	24	5	83
2001-02	4	3	1	75
2002-03	5	3	2	60
2003-04	15	8	7	53
2004-05	4	3	1	75
2005-06	23	19	4	83
2006-07	30	29	1	97
2007-08	17	10	7	59
2008-09	13	10	3	77
2009-10	12	9	3	75
2010-11	18	18	0	100
2011-12	26	9	17	35
2012-13	33	16	17	48
2013-14	25	11	14	44
2014-15	53	21	32	40
2015-16	30	24	6	80
2016-17	40	33	7	83
2017-18	17	13	4	76
2018-19	6	4	2	67
2019-20	1	0	1	0
<b>Total</b>	<b>453</b>	<b>304</b>	<b>149</b>	<b>67</b>

Overall compliance of PAC directives remained un-satisfactory.

## **2.2.4 Audit Paras**

### **Project Management**

#### ***2.2.4.1 Delay in production due to non-installation of procured submersible pumps - Rs 1,362.914 million***

According to Rule 4(3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and his responsibilities include 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 OGDCL for the FY 2021-22, it was observed that the management procured electric submersible pumps for replacement of already installed jet pumps to increase per day production of crude. 2 out of 5 pumps were required to be installed up to June 2021 while remaining 03 were to be installed by June 2022. However, up to August 15, 2022, only 02 pumps were installed out of 05, causing delay in production of 203,420 barrels valuing Rs 1,362.914 million.

Audit was of the view that weak management resulted into delay in production to the tune of Rs 1,362.914 million due to non-installation of procured equipment.

The matter was reported to the management in August, 2022. The management, in its reply dated December 9, 2022, stated that delivery was delayed due to certain unforeseen reasons. Extension in supply time was granted on the request of supplier and LD charges were recovered. At present 4 pumps have been installed. Installation of remaining one submersible pump was in process.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to get the stated stance verified from Audit within a week besides expediting the installation of remaining one submersible pump at the earliest. DAC further directed to share the production data for verification of Audit. In compliance of DAC directives, the management communicated a gain loss statement of 04 pumps which revealed that production of Pasakhi-3 decreased in November and December, 2022 to 40 standard barrel per day after electronic

submersible pump installation. Moreover, production of Sono 4 was shown as 36,070 standard barrel per day during November, 2022 only and zero in December, 2022. Decrease in production of 2 pumps raised question on performance of the pumps. No further progress was reported till finalization of the report.

Audit recommends that reasons for decrease in production of Pasakhi North-03 and zero production of Sono 4 during December, 2022 and non-installation of 5<sup>th</sup> pump may be produced to Audit besides installation of remaining ESP.

[DP No. 1985]

#### ***2.2.4.2 Non-acquisition of land for permanent installation and non-utilization of company owned land - Rs 823.547 million***

According to Clause 11 (1&2) of Procedure for Land Section, after declaration of oil and gas discovery, the well site will be treated as part of the producing field and will be taken over by the production department. Manager production, in consultation with operation manager (fields) will re-assess the required land to be retailed. The land required for the development of field, base camp, de-hydration plant and storage facilities etc., and other civil construction to be used more than three years will be treated as permanent acquisition and will be purchased.

During audit of OGDCL for the FY 2021-22, it was observed that management failed to:

- i. Acquire / purchase land on permanent basis which were under use of company for more than three years and ranged up to 34 years. Initially land was acquired on temporary basis but later on, at the time of discoveries, management was required to prepare review reports for retaining the land but no action had been taken for permanent acquisition according to requirement;
- ii. Utilize purchased land, at Tando Alam Oil Complex and Bobi Oil Complex, 31.13 acre and 46 acre respectively but head office was unaware of its utilization status and inclusion in the hired land or otherwise. The head office management asked the regional coordinator to

share the utilization status of said land but no requisite record was made available; and

- iii. Remove/clear the encroachments on ROW/land. The land was being cultivated by land owners for which company has paid hiring charges.

This resulted in non-acquisition of land and non-utilization of company owned land amounting to Rs 823.547 million on recurring basis.

Audit was of the view that due to non-compliance to procedures and non-adherence to rational of general prudence resulted into inefficient management.

The matter was reported to the management in September, 2022. The management, in its reply dated December 9, 2022, stated that the land management has taken up the matter with regional offices to initiate the cases for permanent acquisition of land in order to save the company exchequer being paid in the shape of rent for long period.

The DAC, in its meeting held on December 29 & 30, 2022, directed the management to place the matter before the BoD on case to case basis for consideration in the light of audit para. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC and comply with company Rules and Regulation regarding permanent acquisition of land.

[DP No. 2024]

#### ***2.2.4.3 Wasteful operational expenditure on depleted fields - Rs 654.625 million***

According to Rule 69 (2&5) of Pakistan Petroleum (Exploration and Production Rules), 1986, when a lease has expired or has been surrendered wholly or partly, or the use of installations and facilities has come to an end, the Government has the right to take over the permanent installations including related equipment in the leased area which are necessary for the production of Petroleum. At least one year prior to termination, the holder of a lease shall submit to the Government a plan for the orderly closing down of his operations and for the removal of the facilities or their transfer to the Government. The DG (PC) vide its letter dated January 20, 2021, has invoked its right to take over

installation of Punjpir field and has subsequently awarded the same to GHPL to take appropriate decision for disposal of the same on commercial consideration.

During audit of OGDCL for the FY 2021-22, it was observed that the management:

- i. Failed to submit a plan at least one year advance, to Government for the orderly closing down of its operations and for the removal of the facilities or their transfer to the Government. The management wrote a letter in respect of Nandpur and Bahu Fields, in January, 2022 after lapse of two and half years of depletion of production from last well; and
- ii. Incurred un-justified employee related expense, hired vehicles, fuel, security, cost allocation and electricity, gas & net charges in respect of three depleted/ceased fields namely Nandpur, Bahu and Punjpir. The production from these fields started depleting, production from last well ceased to flow by October, 2019. As the production from these fields was been depleted three years ago, incurrence of expenses of Rs 654.625 million during FY 2021-22 were un-justified.

This resulted in un-justified expenditure of Rs 654.625 million on such fields which were depleted three years ago and non-submission of advance plan to government.

Audit was of view that weak financial controls resulted in incurrence of un-justified expense amounting to Rs 654.625 million on depleted fields.

The matter was reported to the management in September, 2022. In first case, the management, in its reply dated December 9, 2022, stated that the matter was repeatedly taken up with DG (PC) for closure of field. In response, DG (PC) nominated GHPL, for the possession of all assets of the field, however, no further progress had been made from GHPL. At present only 10 personnels had been deployed on the field. In second case, it was explained that expenditure on the field cannot be avoided till the possession is taken by GHPL. The reply of management was not tenable, as incurrence of expenditure after depletion of production is not justified.

The DAC, in its meeting held on December 30, 2022, in the first case directed the Petroleum Division to inquire the matter, fix responsibility and submit the report within two months. For second case, DAC directed the

management to pursue the matter with DG (PC) and share the outcomes with Audit.

Audit recommends to implement the decision of DAC besides avoidance of such expense in future.

[DP Nos. 2006 & 2018]

#### ***2.2.4.4 Non-completion of process of land acquisition - Rs 94.641 million***

According to Provision of Land Acquisition Act, 1894, after publication of notification under Section 4, 17(4) & 6 and agreement U/S 41/42 of the Land Acquisition Act 1894, LAC issues Notices U/S 9 & 10 of Land Acquisition Act 1894, to the person(s) interested and acquiring agency, for hearing of objections, if any, on the measurements and cost of land determined by the District Collector. Thereafter award is announced by the LAC, a copy of which is sent to acquiring agency for getting the amount adjusted against advance of relevant line. Finally, the land is mutated in favour of acquiring agency i.e., OGDCL

During audit of OGDCL for the FY 2021-22, it was observed that in 6 cases, the management failed to complete the process of acquisition of land measuring 1,341 Kanals despite lapse of 8 years. In 3 cases entire cost of land ie., Rs 94.641 million was paid as advance to the Deputy Commissioner for acquisition of land but process of mutation of land in favour of company was not completed. In remaining 3 cases, management failed to get estimate of cost of land from the Deputy Commissioner. This resulted in non-completion of process of acquisition of land of Rs 94.641 million.

Audit was of the view that due to weak internal controls, timely action was not taken by the management for acquisition of land.

The matter was reported to the management in September, 2022. The management, in its reply dated December 9, 2022, stated that the cases were being pursued with district administration of Karak and Kohat. However, 5 acquisition cases had been completed and only one case was in process.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to get the stated stance verified from Audit within a week and expedite the finalization of remaining case. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2023]

***2.2.4.5 Loss due to cost escalation of project and non-availing discount due to repeated delay in procurement process - Rs 62.037 million***

According to Rule 26(3) of PP Rules, 2004, the procuring agency shall ordinarily be under an obligation to process and evaluate the bid within the stipulated bid validity period. However, under exceptional circumstances and for reason to be recorded in writing, if an extension is considered necessary, all those who have submitted their bids shall be asked to extend their respective bid validity period. Such extension shall be for not more than the period equal to the period of the original bid validity. Further, according to Rule 31(1) of the Public Procurement Rules, 2004 “no bidder shall be allowed to alter or modify his bid after the bids have been opened.

During audit of OGDCL for the FY 2021-22, it was observed that:

- i. A case for construction of road at Kunnar plant filed was first time tendered in 2016 and lowest bid of Rs 55.139 million was received. However, due to internal codal formalities, bid validity expired and tender was annulled. Case was re-tendered and annulled 2<sup>nd</sup> and 3<sup>rd</sup> time due to announcement of general elections and non-completion of internal codal formalities respectively. Lastly, in result of 4<sup>th</sup> tender, contract was awarded against lowest bid of Rs 85.054 million in 2022 with a cost escalation of Rs 29.915 million. It was pertinent to mention that 14 other schemes were also pending in Hyderabad Region since long;
- ii. Management failed to procure 04 sets of Choke and Kill Manifolds after 113 days of advertisement. The case was retendered but case was again annulled because period of extension of bid of 240 days exceeded the period of original bid validity of 120 days. This resulted into failure in completion of procurement process in more than two years and loss of offered discount of Rs 32.122 million; and
- iii. In another case, management allowed to alter financial bid after bid opening and also failed to issue letters of intent to the successful bidders and the bid validity period expired. According to executive summary of the case, an inquiry was recommended because the company may had to

bear opportunity cost in the form of operational and financial losses. In case of procurement of alternators, specifications were changed from IP-65 Alternator to IP-23 on suggestion of a bidder which caused delay in procurement.

Audit was of the view that failure in fulfilment of internal codal formalities, delay in issuance of LOI and non-use of Section 21 of PPRA Ordinance, 2020 resulted in loss of Rs 62.037 million. Moreover, permission of change in financial bid after opening of the financial bid was a clear violation of Rule 31(1) of the PP Rules, 2004.

The matter was reported to the management in September, 2022. For first case, the management, in its reply dated December 9, 2022, stated that cost of road construction increased from Rs 63.89 million to Rs 73 million which was 15.7% higher, while in second case, tender enquiry was annulled without awarding any contract and fresh tender was initiated. In third case, it was replied that case was annulled without awarding any contract and fresh tender was issued. While in fourth case, it was replied that change of specification of IP rating from IP-65 to IP-23 at pre-bid clarification stage was uploaded as pre-bid clarification No. 5 on OGDCL website as per standard tendering process. Audit contended that the reasons given by the management were not correct.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to submit a detailed report on the issues raised by Audit within two months.

Audit recommends implementation of the decision of DAC besides improving internal controls to avoid abnormal delay in future.

[DP Nos. 1987 & 2003]

#### ***2.2.4.6 Extra payment of land rent due to late de-hiring and excess retention of land - Rs 93.914 million***

According to Article 5, 6.2 and 6.5 of Procedure for well closing / abandoning a drilling well site issued vide No. AAO107-32 dated September 21, 1988, a committee namely Well Site Closing Committee will be constituted. The committee will negotiate with the land owners for the settlement of terms for de-hiring of land. Efforts will be made to offer the structure including the civil works and unserviceable material at the site to the land owner as compensation

for land, clearing, levelling and bringing the site in original shape. Clearance in the terms of settlement agreed with the land owner will be sought to Principal Land Management Committee. Immediately after vacation / levelling the area in proper shape, representative of the land management section will formally de-hire and hand-over the land to the land owner.

During audit of OGDCL for the FY 2020-21, it was observed that management:

- i. Either late de-hired or did not de-hire the land which was excess than the requirement of the company. Late de-hiring period ranged up to 18 months. For example, in one case of Rajian well No. 10, the well was plugged and abandoned since June 06, 2020 but its land was de-hired on October 26, 2021;
- ii. In case of Qadirpur Well No. 62, which was plugged and abandoned on January, 2021 land measuring 9 acre & 37 Guntas was de-hired being excess after payment of de-hiring charges of Rs 3.97 million. But later on, another piece of land measuring 5 acre & 30 Guntas was again hired after payment of compensation of Rs 2.013 million. De-hiring and again hiring of land in respect of plug and abundant well is un-justified; and
- iii. Made excess payment for annual lease rent regarding land measuring 489 acre at Kunner field which was not in use of company. Management made payment of lease rent for 1165 acres and 14-G, however, according to committee's report, land measuring 676 acre & 21 Guntas was under the use of company meaning thereby that payment for 489 acres was made in excess/un-justified. Further, it was noticed that land measuring 2 acres 10 Gunta regarding ROW Shah well-I appearing at Sr. No. 59 of committee report was also not being utilized by the company but rent was being paid. This resulted in un-justified excess payment of Rs 41.565 million.

It showed that the management did not take any serious action and land management committee failed to fulfil its responsibilities which resulted in extra payment of Land Rent amounting to Rs 93.914 million.

Audit was of the view that due to weak internal control; extra payment was made owing to excess hiring of land which could not be de-hired.

The matter was reported to the management in September, 2022. The management, in its reply dated December 9, 2022, stated that the land department had taken up the matter well in time regarding Rajian well No. 10 and Qadirpur No. 62. The land de-hiring was delayed due to the reason that there was lying sufficient material of user department and no alternate space was available. In second case, the management stated that the land was hired on the requirement of production department. The reply of management was not tenable, as land was being de-hired after lapse of period ranging up to 6 years from date of plug & abandon of well and excess rent was paid in respect of land which was not utilized by the company

The DAC in its meeting held on December 29 & 30, 2022, directed the management in first case, to get the stated stance verified from Audit on case to case basis and in second case directed the management to submit detailed reply on case to case basis pointed out by Audit within a week. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides devising SOPs for timely de-hiring of excess / un-utilized land.

[DP Nos. 2002 & 2005]

#### ***2.2.4.7 Un-justified payment of rent and excess purchase of land - Rs 37.804 million***

According to Para 3.1 of Code of Conduct of OGDCL, the directors and employees of the Company seek to protect the Company's assets and to ensure that the Company's assets and services are used solely for legitimate business purposes of the Company. Further, according to Note: No.GM I/C (PSV)2018/485 dated May 18, 2018, shifting of EFP-III Base Camp and FGCP-I Base Camp to Ex-Sheikhan plant was approved for 1<sup>st</sup> stage and Logistic Base Camp Kot Sarang along with Cementation / Stimulation Section, Tabular Section, Overhauling Workshop & Base Store, R.C Office with transit camp in 2<sup>nd</sup> stage. Since the Exploration, Drilling and Production activities were in full swing in North Region Specially Chanda, Mela & Nashpa Field, therefor EFP-III and FGCP-I Base Camp was required to be shifted. For the purpose, MD/CEO approved in principle for acquisition of land on permanent basis.

During audit of OGDCL for FY- 2021-22, it was observed that management made un-justified / excess payment in following cases:

- i. The management failed to shift the Regional Coordination Office, Kohat and Kot Sarang facilities despite availability of sufficient setup / land at Sheikhan plant, Kohat and incurred un-justified expenditure of Rs 15.61 million on account of rent of building / land. For this purpose, the management had acquired 196 kanal, 12 marla land for Rs 79.198 million and acquisition of 666 kanal land was under process at Sheikhan plant; and
- ii. The management purchased 73 kanal land in excess valuing Rs 22.193 million. The item wise requirement showed that 790 kanal of land was sufficient to meet the need of setup but management acquired 863 kanal of land.

This resulted in un-justified extra payment of Rs 37.804 million on account of rent instead of using its owned land and excess purchase of land than actual need of company.

Audit was of view that due to weak financial control and delayed action on the part of management, company had to bear extra / excess cost.

The matter was reported to the management in September, 2022. The management, in its reply dated December 9, 2022, stated that till completion of requirements, OGDCL have to retain the hired land, otherwise, it will disturb the smooth operations of the company. The reply was not tenable as the management was required to expedite the shifting to reduce the dual expenditure and utilize the already available land.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to share the complete plan along with full justification within a week. No further progress was reported till finalization of the Report.

Audit recommends to implement the decision of DAC and ensure the purchase of land on actual need basis.

[DP No. 2022]

## **HR / Employees Related Irregularities**

### ***2.2.4.8 Excess payment of Entertainment Allowance – Rs 849.353 million***

According to Para 2(ii) of notification No. AAO102-06 dated March 31, 1993, Entertainment Allowance has been allowed up to 10% of basic pay on

reimbursement basis. Further, according to Clause V (ii) of notification No. ID-52748-810 dated July 06, 2005, the Special Allowance include servant allowance, driver allowance, entertainment allowance, Newspaper, Petrol, Ph.D. allowance etc.

During audit of OGDCL for FY- 2021-22, it was observed that the entertainment allowance was required to be paid up to the maximum limit of 10% of basic pay. Contrary to above, the management paid the allowance @ 10% of basic on straight line basis. Further management paid two entertainment allowances to executive group simultaneously

- i. The entertainment allowance was being paid at rate of 10% of basic on straight line method; and
- ii. Entertainment allowance was also being paid under head Special Allowance, as special allowance head included the entertainment allowance.

Hence, double payment of entertainment allowance was unjustified. Besides above mentioned two payments, the officers and officials of company were also being provided the facility of breakfast, lunch & tea at subsidized rates. This resulted in excess/double payment under the head entertainment allowance amounting to of Rs 849.353 million.

Audit was of view that weak financial control resulted in excess payment of entertainment allowance.

The matter was reported to the management during September, 2022. Regarding first case, the management, in its reply dated December 9, 2022, stated that Entertainment Allowance to all grades of Officers (EG-I to EG-IX) across the board was allowed @ 10% of basic pay since December 01, 1992 and in second case, the management stated that the expenditure in meeting for light refreshment was allowed to Officers Grade EG-VI and above in addition to their own entitlement of entertainment allowance named as "Office Entertainment" and merged in special allowance since July, 2005. The reply of management is not tenable as 10% entertainment allowance was allowed on reimbursement basis and payment of office entertainment allowance is double payment of allowance.

The DAC, in its meeting held on December 29 & 30, 2022, directed the management to place the matter before the BoD for consideration, either to give ex-post facto approval or otherwise, regarding payment of 10% entertainment allowance on straight line method instead of reimbursement basis and in second case management was directed to place the matter before the BoD for consideration in the light of audit observation. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides fixing responsibility for violation of BoD direction.

[DP Nos. 2033 & 2034]

#### ***2.2.4.9 Defective performance evaluation system - Rs 137.952 million***

According to Rule 8(2) of Public Sector Companies (Corporate Governance) Rules, 2013, The Board shall monitor and assess the performance of senior management on a periodic basis, at least once a year, and hold them accountable for accomplishing objectives, goals and key performance indicators set for this purpose. The Board shall set up the human resources committee to support it in performing its functions efficiently and for seeking assistance in the decision making process and to deal with all employee related matters including recruitment, training, remuneration, performance evaluation, succession planning, and measures for effective utilization of the employees of the Public Sector Company.

During the audit of OGDCL for the FY 2021-22, it was observed that management has failed to develop effective and transparent performance evaluation system as detailed below.

- i. Management evaluated performance of 23 employees as “good” despite that penalties were imposed on them like reduction to lower grade, withholding of increments, censure, warning and recovery due to slackness/sheer negligence, fraudulent issuance of HSD, failure to adhere to company policy and loss to company due to non-following SOP. In one case of Employee# 102149, company sustained loss of Rs 1.9 million and he also failed to report the absence of his junior to head office even then his performance was rated as good. On basis of good rating officer was awarded 2.25 times basic salaries as profit bonus and 13% annual

increase. He was also promoted to next grade during this year. This showed ineffective performance evaluation and monitoring system and excess payment of profit bonus amounting to Rs 9.727 million; and

- ii. Management evaluated performance of exploration, drilling and production departments (including project) as good and very good by ignoring the operational performance of these departments. These departments failed to achieve their assigned targets of exploration and production. Non-achievement of target ranged up to 53%. This resulted in excess payment of profit bonus amounting to Rs 128.225 million.

Audit was of the view that in-effective performance evaluation system resulted in excess payment of profit bonus amounting to Rs 137.952 million.

The matter was reported to the management in November, 2022. The management, in its reply dated December 9, 2022, stated that the performance evaluation report (PER) of professionals were made according to existing criteria set by the competent authority i.e. BoD, and judgment of their superiors were purely based on target set in performance contract for the particular year. The reply of management was not tenable as performance evaluation report of employee was rated as “good” that cause a loss of Rs 1.9 million and similar evaluation in other cases.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to submit a detailed reply on case to case basis for verification of Audit within a week besides strengthening internal controls of HR. No further progress was reported till finalization of the Report.

Audit recommends to implement the decision of DAC and improve the performance evaluation system.

[DP No. 2302]

#### ***2.2.4.10 Non-existence of succession planning resulted in hiring of top management positions/regular MD from market- Rs 120.084 million***

According to Rule 8(2) read with Rules 12 and 5(7)(n) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall set up the human resources committee, to deal with all employee related matters including recruitment, training, remuneration, performance evaluation, succession planning, and measures for effective utilization of the employees. The

Board shall also be responsible for development and succession planning of the chief executive. The Board shall also formulate significant policies of company, which include namely development of whistle-blowing policy and protection mechanism

During audit of OGDCL for the FY 2021-22, it was observed that BoD has failed to:

- i. Fulfil its responsibility regarding succession planning. The post of regular managing director could not be filled despite lapse of about one year. The Board in its 240<sup>th</sup> meeting dated 14<sup>th</sup> October, 2021 while considering the filling of vacant post of MD/CEO, could not find suitable person from top management and selected a director from Board as acting MD/CEO. This showed poor succession planning by BoD for the post of CEO;
- ii. For succession planning, senior/top management position such as EDs remained vacant due to non-availability of suitable candidates. The post of Executive Director (service) remained vacant for four years i.e. 2017-18 to 2020-21 and post of Executive Director (reservoir management) was also remained vacant during last five years. Similarly, posts of top level remained vacant due to non-existence of succession planning;
- iii. Develop the whistle-blowing policy and protection mechanism; and
- iv. Develop manual of project department of company.

Further, it was pertinent to mention that the expenditure incurred by Board was increasing every year and it doubled during last four years as it increased from Rs 20.03 million in FY 2018-19 to Rs 43.34 million in FY 2021-22. Total expenditure of Rs 120.084 million was incurred during last four years.

Audit was of the view that failure of Board to play its effective role resulted in non-filling of top management positions and thereby the performance of company was going towards downward.

The matter was reported to the management during September, 2022. The management, in its reply dated December 9, 2022, stated that the need for filling in such positions had been identified and was necessitated by the management over a period of time. Considering the same, after detailed evaluation of the

business needs along with retirement trends at senior level, the succession planning exercise had been completed for General Manager level positions of the Company and where required positions had been filled through direct recruitments, promotions or by internal transfers/postings. The reply of management was not tenable, as management was not complying the Corporate Governance Rules.

The DAC in its meeting held on December 30, 2022 directed the management to ensure the compliance of the Corporate Governance Rules 8 (2), 12 and 5 (7)(n) and share the outcome with Audit. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2036]

***2.2.4.11 Discrimination in disciplinary action on same offence of unauthorized absence - Rs 80.190 million***

According to Article 25 of Constitution of Islamic Republic of Pakistan, all citizens are equal before law and are entitled to equal protection of law. According to Rule 86 read with Rule 119 (e & f) & 122 of OGDCL Service Rules, 2002 if any employee leaves the Company, without notice or absents himself from duty without leave, he shall be liable to be punished under relevant rules. The acts of habitual absence without leave or without sufficient cause and continuous absence without permission and without satisfactory cause or wilful absence for more than ten days shall be construed as mis-conduct. The authority may impose on him one or more penalties. The authority may award any of the punishments after taking into account the gravity of the grounds for punishment, the previous record of the accused employee and / or any other extenuating or aggravating circumstances that may exist.

During audit of OGDCL for FY- 2021-22, it was observed that in 44 disciplinary cases of un-authorized absence from duty, the management failed to impose penalties according to gravity of offenses. As in 31 out of 44 cases, the management imposed penalty of censure, stoppage / withholding of increment and reduction to lower grade despite these employees were habitual absconder and remained absent from duty from 26 to 926 days without approval. On the other hand, in remaining 13 cases, penalties of dismissal, removal from services

and compulsory retirement were imposed by the management. Five cases are elaborated below:

<b>Sr. No.</b>	<b>Employee No.</b>	<b>No. of days absent</b>	<b>Penalty</b>
1	102947	312 days in 2010 211 days in 2016 143 days in 2019 112-days in 2020	Reduction to lower grade
2	212986	926 days	Withholding of two increment
3	210440	104 days	Censure
4	214381	61 days	Compulsory retirement
5	305178	135 days	Dismissal from service

The Board's committee also expressed serious concern in different meetings on inquiry and recommendations of the inquiries issued by management. This resulted in irregular payment of Rs 80.190 million.

Audit was of view that due to non-observing of the merit policy, lenient penalties were imposed on same offenses which may increase unauthorised absence cases.

The matter was reported to the management during September, 2022. The management, in its reply dated December 9, 2022, stated that the disciplinary actions against 44 employees were based on un-authorized absence / wilful absence from duty. It was the prerogative of the Authority to impose major or minor penalty, reduce and enhance, commute or set-aside the penalty taking into consideration any of the extenuating circumstances on case to case base. The reply of management was not tenable, as different penalties were imposed on same nature of offense.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to submit a detailed report on case to case basis for verification of Audit within a week. No further progress was reported till finalization of the report.

Audit recommends to implement DAC decision and ensure equal implementation of law for all employees.

[DP No. 2032]

***2.2.4.12 Inadmissible payment of Profit Bonus / Award to employees against whom Disciplinary Proceedings were in progress - Rs 23.750 million***

According to Clause 3(vi)(a) of OGDCL's Policy Department letter No. AAO-106-22 dated November 10, 2021, the officers / staff against whom disciplinary proceedings are pending on or before June 30, 2021 and against whom criminal prosecution has been initiated in connection with their official functions or actions and case is pending before Court are not eligible for profit bonus. Further according to SOPs for disposal of disciplinary cases, HOD/Location Incharge / Admin officer is responsible for stoppage of pay, allowance & benefits within 10 days from date of absence from duty.

Further, according to Notification No. AAO106-02 dated February 26, 2015, the Board in its 167<sup>th</sup> meeting held January 19, 2015, resolved that Hard area allowance @ 25% of basic pay to regular officers and 33% of basic pay to regular staff / employees working/posted in KUP area of Baluchistan on basis of their actual attendance in field.

During audit of OGDCL for the FY 2021-22, it was observed that management had:

- i. Paid inadmissible profit bonus and award amounting to Rs 22.652 million to 44 employees against whom disciplinary proceedings were under progress;
- ii. Failed to stop the salary of employee No. 304112 (Assistant Engineer-Production) who was absent from duty since November, 2020 to February, 2021, and his pay was required to be stopped within ten days but pay was not stopped up to March, 2021. This resulted in excess payment of pay & allowance amounting to Rs 0.474 million; and
- iii. Paid inadmissible hard area allowance and field allowance to employees who were posted at head office Islamabad, base workshop, I-9 and Korangi Base Store. This resulted in inadmissible payment of field allowance and hard area allowance amounting to Rs 0.624 million.

Audit was of the view that due to weak financial control resulted in inadmissible payment of profit bonus, field allowance and hard area allowance amounting to Rs 23.750 million.

The matter was reported to the management in September, 2022. The management, in its reply dated December 9, 2022, stated that no employee was paid bonus / award when disciplinary action was pending / in progress. These payments were related either prior to start of inquiry or after issuance of penalty / exoneration / warning letters. Reply was not tenable, as profit bonus was paid during the period when disciplinary proceeding was under process.

The DAC in its meeting held on December 29 & 30 2022, directed the management to get the stated stance verified from Audit on case to case basis within a week. No further progress was reported till finalization of the report.

Audit recommends to implement the DAC decision and ensure the stoppage of payment of profit bonus salary according to law.

[DP No. 2052]

#### ***2.2.4.13 Irregularities in appointment of Executives - Rs 12.963 million***

According to advertisement for hiring for the post of ED (JV), OGDCL, the required qualification was B.E or B.Sc. Engineering in Petroleum / Mechanical / Chemical or 04 years Master's degree in Earth Science/Business Administration or chartered accountant along with 18 years post qualification experience in a leading company with board-based knowledge of E&P business applicable policies, rules and procedures. Exposure to renewable energy sector would be an added advantage. According to the press advertisement dated August 01, 2021 for the post of Deputy Chief Engineer / officer (EG-V), stipulated closing date for submission of application was August 17, 2021.

During audit of OGDCL for FY 2021-22, it was observed that management:

- i. Appointed Executive Director (Joint Venture) on March 04, 2022. At the time of appointment, the candidate was having post qualification experience of 16 years, 5 months and 7 days while required post qualification experience was 18 years. Further, he was a Bachelor in Electrical Engineering which was not relevant as per advertisement. Moreover, the management also failed to collect equivalence certificate of the qualification. This resulted in irregular payment of Rs 11.917 million to ED (Joint venture) on faulty appointment; and

- ii. Accepted the application for the post of Deputy Chief Engineer/officer (EG-V) on September 01, 2021 after closing date i.e. August 17, 2021. The application was sent to the GM (HSEQ) by HR department for short-listing. The candidate was short-listed, called for interview and finally was appointed as Deputy Chief Engineer. Audit held that acceptance of application was unlawful, void ab-initio and in violation of human rights. This resulted in irregular appointment and payment of salary amounting to Rs 1.046 million to Deputy Chief Engineer.

Audit was of view that due to negligence of the management an irregular appointment was made in contradiction to HR Policy/advertisement resulting in irregular payment of salary of Rs 12.963 million.

The matter was reported to the management in September, 2022. The management, in its reply dated December 9, 2022, stated that the post-qualification experience possessed by the selected candidate was more than 20 years on the date of closing of advertisement. His MBA Degree was accredited. There was no bar on hiring of dual nationals in OGDCL. In second case, the management stated that application was received late in Recruitment Department due to inadvertent oversight by the receptionist. Accordingly, the application was sent to concerned department i.e. HSEQ for shortlisting. Reply of management was not tenable as applicant was not having sufficient post qualification experience and two year MBA degree whereas the application was received after last date for submission of application.

The DAC in its meeting held on December 30, 2022 directed the management to submit a detailed report with comparison of qualification and experience of all applicants for verification of Audit within a week. In second case, DAC directed the management to conduct inquiry in the matter and submit report within one month.

Audit recommends to implement the decision of DAC beside observance of merit policy and transparency in recruitment process.

[DP Nos. 2031 & 2042]

#### ***2.2.4.14 Inadmissible payment of car monetization despite allotment of Vehicles - Rs 12.662 million***

According to Clause 8 of Vehicle Policy, 2015 of OGDCL, an entitled officer may opt for monetization of vehicle facility on such rates and terms as may be fixed by the company. The Managing Director/CEO will determine and fix the monetization amount to be paid to an officer per month by applying cost to the Company formula on the basis of 16% IRR.

During audit of OGDCL for the FY 2021-22, it was observed that management paid inadmissible vehicle monetization to 26 employees during period when vehicles were also allotted to these employees. This resulted in inadmissible payment of vehicle monetization amounting to Rs 12.662 million.

Audit was of the view that weak financial contracts resulted in inadmissible payment of vehicle monetization.

The matter was reported to the management in November, 2022. The management, in its reply dated December 9, 2022, stated that according to clause 8 of the Vehicle Policy, 2015 of OGDCL, an entitled officer may opt for monetization of vehicle facility on such rates and terms as may be fixed by the company. The MD/CEO would determine and fix the monetization amount to be paid to an officer per mensem by applying cost to the Company formula on the basis of 16% IRR. Reply of management was not tenable being verbatim and describing the procedure instead of specific reply.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to expedite the recovery and get it verified from Audit within one month.

Audit recommends to implement the decision of DAC and ensure the compliance of policy in letter and spirit in future.

[DP No. 2308]

#### ***2.2.4.15 Non deposit of EOBI Contribution and non-registration of employees with EOBI - Rs 11.103 million***

According to Section 13 (1) of Employees Old Age Benefits Act, 1976 if any employer fails to pay, on the due date the contribution payable by him under sub-section (1) of section 9, the amount so payable by him shall be increased by

such percentage or amount as may be prescribed: Provided that in no case shall such increase exceed fifty percent of the amount due. Moreover, if the employer fails to deduct the employee's contribution or pay contribution on due date, the amount payable, shall be increased by two per cent of such amount for every month or part of a month for which the amount is in arrears.

During audit of OGDCL for FY 2021-22, it was observed that management failed:

- i. To deduct / deposit EOBI employee share and employer contribution in respect of employees hired on work charge/ daily wages basis and through third party's contractor;
- ii. To register 264 employees with EOBI, involving amount of Rs 0.450 million; and
- iii. To deduct monthly contribution from 25 employees and thereon non-deposit of employee's and employer contribution amounting to Rs 4.626 million.

This resulted in non-registration, non-deduction and non-deposit of EOBI contribution amounting to Rs 11.103 million.

Audit was of the view that such practice of non-registration, non-deduction and non-deposit of EOBI contribution was in violation of Employees Old Age Benefits Act, 1976 and the Employees' Old Age Benefits (Contributions) Rules, 1976. Similar nature para was also printed in audit report 2021-22 [Para No. 2.2.4.18] of Rs 536.230 million.

The matter was reported to the management during September, 2022. The management, in its reply dated December 9, 2022, stated that the payment of EOBI contribution of employees hired by 3<sup>rd</sup> Party was the responsibility of contractor. The employees' contribution of 25 employees was stopped due to their EOBI superannuation which was, 55 years in females' cases and employees who were hired by the company after 60 years and employees on deputation were not in the ambit of EOBI contribution. The reply of management was not tenable, as per EOBI act, the payment of contribution regarding 3<sup>rd</sup> Party labour was the responsibility of employers availing the services of employees.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to pursue the case with EOBI for seeking clarification regarding

payment of contribution in respect of 3<sup>rd</sup> party labour and registration of employees with EOBI and share the outcome with Audit. No further progress was reported till finalization of the report.

Audit recommends to implement the DAC decision.

[DP No. 2035]

## **Joint Venture Related Issues**

### ***2.2.4.16 Non permission of audit by the operator due to non-resolution of cash call issues - Rs 805.565 million***

According to Article 22.1 of PCA read with Clause 4.8 of JOA, between the President of the Islamic Republic of Pakistan, M/s Canada Northwest Energy Ltd, Rio Alto Exploration Ltd and OGDCL, failing amicable settlement of any dispute within a period of three months shall finally be settled by arbitration in Geneva, Switzerland under the Rules of Arbitration of the International Chamber of Commerce by three arbitrators appointed in accordance with those Rules. Further, according to Clause 3(b) of the JOA in respect of PCA of Ghauspur Block dated July 15, 1986, a non-operator, upon at least thirty days advance written notice to operator and other non-operator, shall have the right at its sole expense to audit the Joint Account and related records for any calendar year or portion thereof within nine months period following the receipt of the audited accounts of such calendar year.

During audit of OGDCL for the FY 2021-22, it was observed that OGDCL was a 50% JV partner in Badar Gas Field with PEL with 42.11% share and Spud Energy with 7.89% share. Following discrepancies were noticed in the accounts of Badar Gas Field:

- (i) PEL, the operator of Badar Field, included in cash calls, lump sum LPS for past 10 years besides unapproved expenditure of Rs 692.316 million regarding “Reservoir Simulation Study and other expenditures” which OGDCL refused to pay. On this, PEL declared OGDCL a “default party”, however, management failed to get the outstanding issues resolved with PEL;
- (ii) The operator raised unjustified cash calls of Rs 113.249 million and there was abnormal increase in personnel cost and general & admin costs w.e.f January, 2022 to onwards which were US\$ 54,200 & US\$ 91,667 per

month up to December, 2021 but were increased to US\$ 150,000 and US\$ 175,000 respectively;

- (iii) Approved budget for the FY 2020 was US\$ 3,122,500 which was US\$ 4,367,740 for the FY 2021 (with 40% increase) and was US\$ 6,042,500 for the FY 2022 (with 38% increase). Budget for the FY 2021 & 2022 were not approved by the OGDCL; and
- (iv) The management of OGDCL intended to conduct non-operator audit of Badar Gas Field for the FYs 2016 to 2020, however, the operator did not allow to do so which was a clear violation of Clause 3(b) of the Joint Operating Agreement.

Resultantly, dispute of cash calls aggregated to Rs 805.565 million remained unresolved and budget for the FYs 2021 & 2022 remained unapproved and OGDCL also failed to conduct non-operator audit for FYs 2016-22.

Audit was of the view that non-resolution of the long outstanding matter in accordance with prevailing rules and law and non-conduct of non-operator audit was failure at the part of management of OGDCL.

The matter was reported to the management in September, 2022. The management, in its reply dated December 9, 2022, stated that operator i.e. PEL was taking all decisions unanimously without OCM approval. The matter had been brought to the knowledge of DG (PC) / regulator for resolution in line with JOA / PCA provisions.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to pursue the case with DG (PC) and share the outcome with Audit. DAC further directed the management to conduct 3<sup>rd</sup> Party Audit of JV operation.

Audit recommends to implement the decision of DAC.

[DP Nos. 1991 & 1995]

#### ***2.2.4.17 Loss due to curtailment of production by the Operator without consent of OGDCL - Rs 188.480 million***

According to Clause 4.8 of the Joint Operating Agreement in respect of PCA of Ghauspur Block dated July 15, 1986, no business shall be transacted at

any meeting unless a quorum is present. A quorum shall include the operator and constitute two or more working interest owners holding 75% or more of the total working interest.

During audit of OGDCL for the FY 2021-22, it was observed that OGDCL with 50% share was a JV partner of PEL and Spud Energy in Badar Gas Field. PEL, the operator of the field, Shut-In the Badar-1 well w.e.f July 27, 2021 without seeking approval of OCM/JV partners, resultantly, production from Badar field decreased. This resulted into curtailment in production and OGDCL share for Rs 188.480 million due to shut-in of Badar-1 Well without approval of JV partners.

Audit was of the view that one-sided curtailment of gas production resulted not only into delayed production but also created chances of change in behaviour of the well in future.

The matter was reported to the management in August, 2022. The management, in its reply dated December 9, 2022, stated that Badar-I remained shut-in since July 27, 2021 for Gas allocation. DG (Gas) allowed operator to contact with any 3<sup>rd</sup> party for sale of gas from Badar-I through competitive bidding process. OGDCL has repeatedly requested Operator to share the strategy in line with DG Gas letter, however Operator was not sharing the same as Operator illegally declared OGDCL as a default party.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to pursue the case with DG (PC) and share the outcome with Audit. No further progress was reported till finalization of the report.

Audit recommends to take up the matter with the regulator for early resolution besides taking action against the operator according to JOA.

[DP No. 1999]

## **Contract Management**

### ***2.2.4.18 Non transfer of gas sale proceeds and gas processing charges by PEL due to unresolved cash calls disputes - Rs 268.469 million***

According to Clause 4.8 of the Joint Operating Agreement in respect of Petroleum Concession Agreement of Ghauspur Block dated July 15, 1986, no business shall be transacted at any meeting unless a quorum is present. A

quorum shall include the Operator and constitute two or more working interest owners holding 75% or more of the total working interest. Any other representative not present at a meeting may vote on any item included in the agenda of the meeting in writing, addressed to operator, provided such vote is received by the operator prior to submission of such item to a vote at the meeting.

During audit of OGDCL for the FY 2021-22, following irregularities were observed in Badar Gas Field:

- (i) From March, 2022, the operator started issuing invoices showing OGDCL 0% share in respect of gas being sold from Badar Field which resulted in non-transfer of gas sale proceeds amounting to Rs 159.691 million;
- (ii) PEL did not pay gas processing charges of Rs 44.367 million for the period from March, 2021 to July, 2021 and Rs 51.953 million on account of late payment surcharge for the period from August, 2006 to May, 2022 aggregating to Rs 96.320 million; and
- (iii) Gas of Badar field was being processed at OGDCL owned gas processing plant under an agreement between PEL (operator) and OGDCL at specified rates. In July, 2021 PEL, installed its own plant and started unapproved gas processing charges on much higher rates than the rates being charged by the OGDCL. This resulted into unauthorized gas processing charges of Rs 21.083 million as 50% OGDCL share and Rs 12.458 million were paid up to April, 2022. Further, cash calls issued by PEL and payments thereof for the months of May and June, 2022 were not shared with Audit.

Resultantly, an amount of Rs 268.469 million was blocked by PEL due to non-transfer of gas sale proceeds and dispute of gas processing charges.

Audit was of the view that the management failed to use its JV rights and the operator not only installed the gas processing plant without permission but payment of gas processing charges on higher rates by the OGDCL and non-transfer of gas sales proceeds by the operator were deviance from provisions of JOA.

The matter was reported to the management in September, 2022. The management, in its reply dated December 9, 2022, stated that the operator i.e. PEL was not following PCA / JOA provisions and had blocked OGDCL sales proceeds through SNGPL by illegally declaring OGDCL as a default party. The matter had been brought to the knowledge of DG (PC) / Regulator for resolution in line with JOA / PCA provisions.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to pursue the case with DG (PC) and share the outcome with Audit.

Audit recommends to implement the decision of DAC.

[DP Nos. 1990, 1994 & 1998]

***2.2.4.19 Loss of revenue due to excess payment of transportation charges - Rs 11.390 million***

According to Clause 7.2 of the contract between OGDCL and the contractors (transporters) for transportation of Crude Oil / Condensation from its Oil Fields to Refineries located in the country on as and when requirement basis “ the impact of increase / decrease in fuel prices during the period of award of scope of work for transportation of OGDCL products shall be accounted for and will be revised either side (increase/decrease) by 3.5% if diesel (HSD) price fluctuation exceeds 10% from the date of fixing of transportation rates”.

During audit of OGDCL for the FY 2021-22, it was observed that management awarded contracts for transportation of crude / condensate to 07 transporters for different routes. Record revealed that in 73 cases, prices of HSD fluctuated to higher side i.e. more than 10%. However, transportation rates were increased by 7% instead of 3.5% as envisaged in Clause 7.2 of the contract *ibid*. This resulted into loss of revenue due to excess payment of transportation charges of Rs 11.39 million. No record relating to quantities transported during the period of May, 2022 and June, 2022 was produced to Audit, hence, excess paid amount for this period could not be worked out.

Audit was of the view that poor financial management resulted in excess payment of transportation charges amounting to Rs 11.390 million.

The matter was reported to the management in September, 2022. The management, in its reply dated December 9, 2022, stated that OGDCL had succeeded to save substantial amount by replacing 15% premium with SBP

announced CPI and no excess payment had been made in this regard. During the period from May 27, 2022 to June 30, 2022, the GOP has revised diesel (HSD) prices abnormally from Rs 142.62/litre to Rs 263.31/litre (85% increase). However, OGDCL had allowed only 17.5% instead of 23.92% according to agreed Clause 7.2 of the agreement whereas contractors were interpreting and demanding the differential of 6.42% (23.92% - 17.5%). The reply was not tenable as 7% increase was granted in violation of contract.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to get the stated stance verified from Audit on case to case basis within a week.

In compliance of DAC directives, only a comparative statement showing 7% decrease and 7% increase had been produced besides a 3.5% increase with overall net impacts regarding 4 routes instead of all routes. No further progress was reported till finalization of the report.

Audit recommends to produce complete record of all routes and all parties on case to case basis beside fixation of responsibility for violation of contract.

[DP No. 1988]

## **Procurement and Store Management Related Irregularities**

### ***2.2.4.20 Misappropriation and non-utilization of store and stock - Rs 2,678.958 million***

According to Para 3.1 & 3.2 of Code of Conduct of OGDCL, the directors and employees of the company seek to protect the company's assets and to ensure that the company's assets and services are used solely for legitimate business purposes of the company. The company must make and keep books and records that accurately and fairly reflect the company's transactions and the disposition of its assets in accordance with Generally Accepted Accounting Principles (GAAP) and applicable laws and regulations.

During audit of OGDCL for the FY 2021-22, it was observed that the record of assets / store register in respect of 03 depleted fields. i.e. Bahu, Nandpur & Punjpir field. Following discrepancies were observed:

- i. The asset register showed 88 air conditioners as on June 30, 2022 valuing Rs 2.829 million but as per committee report only 44 air conditioners were available;
- ii. 689 assets like TVs / LED, Air conditioners, fan, freezers heater, bed and mattress were laying idle and were not utilized at other location despite lapse of 3 years and 659 inventory items valuing Rs 67.095 million were not utilized by shifting from other locations;
- iii. The committee report showed 1,043 assets but asset register showed 488 line items only valuing Rs 2,603.202 million. Hence, record shown in ERP system was incomplete and assets shown in annual accounts did not show true and fair picture of financial position of company; and
- iv. Five vehicles were not registered with provincial registration authority and thereby deprived the national exchequer from legitimate revenue in shape of registration fee. It was also loss as these un-registered vehicles valuing to Rs 5.832 million could not be auctioned.

This resulted in mis-appropriation and non-utilization of store and stock amounting to Rs 2,678.958 million as detailed below:

(Rs in million)			
Sr. No.	Description	Amount	Remarks
1	Air Conditioners	2.829	Mis-appropriation of assets
2	TVs / LED, AC, etc.	67.095	Non-utilization of assets
3	Assets	2,603.202	Incomplete in formation of Assets in ERP system
4	Vehicles	5.832	Non-registration of vehicles
	<b>Total</b>	<b>2,678.958</b>	

Audit was of the view that weak internal and inventory management controls resulted into loss of Rs 2,678.958 million.

The matter was reported to the management during September, 2022. The management, in its reply dated December 9, 2022, stated that 88 air conditioners were available and were properly controlled in the book of account Only 03 unregistered vehicles were available at this location which were received from other locations in very poor condition. Case was forwarded to Head Office regarding unregistered vehicles but process was not completed. Only moveable assets were recorded in the asset register. Therefore, moveable assets related to

Nandpur, Punjpir & Bahu had been properly recorded. However, non-moveable assets had not been removed from the account book of the company by S&FA department. Most of the mentioned items had already been sent to other locations as per requirement.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to reconcile the store items with concern locations and provide the record along with acknowledgment of concerned staff and status of installation / consumption for verification of Audit within a week. DAC further directed to strengthen the internal controls on assets / inventory management.

Audit recommends to implement the decision of DAC.

[DP No. 2007]

***2.2.4.21 Award of contract to a non-compliant bidder for Rs 474.224 million and loss due to expensive purchase of ESP - Rs 18.135 million aggregating to Rs 492.359 million***

According to Section 4 of PPRA Ordinance, 2020, procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical. Further, according to Rule 4(3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and his responsibilities include 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 OGDCL for the FY 2021-22, it was observed that after codal formalities the successful bidder namely M/s Schlumberger offered optional costs of Electric Submersible Pump for Pasakhi-5, if purchased within 35 days @ US\$ 759,417.13, from 36 to 65 days @ US\$ 831,015.41 and after 90 days @ US\$ 894,746.98. However, the management opted for 3<sup>rd</sup> option i.e. US\$ 894,746.98 instead of first as the KPIs were met within 68 days instead of allowed 90 days which resulted in expensive purchase of Rs 18.135 million. In another case, in tender inquiry for procurement of 05 Electric Submersible Pumps, M/s Dowell Schlumberger (Western) S.A was declared the successful

bidder for Rs 474.424 million despite the fact that he failed to quote prices with buyback option as required vide Clause 4.5.2 of Financial Proposal of TOR of tender inquiry. This resulted into award of contract to a non-compliant bidder for Rs 474.224 million.

Audit was of the view that weak decision making resulted into not only costly procurement and ultimately loss of revenue but also award of contract to a non-compliant bidder.

The matter was reported to the management in August / September, 2022. The management, in its reply dated December 9, 2022, stated that target oil production of 31,500 BBL was met on 68<sup>th</sup> day from the start of the trial, however, OGDCL did not avail the option and decided to avail full trial period to achieve confidence and train the OGDC engineers. Audit held that as the KPIs were met earlier than allowed period, by availing first option the loss could be covered which was not done. In the second case it was stated that the case was processed through open competitive bidding after completion of procedural requirements and “buy back” decision was the sole discretion of OGDCL, based on the used GENSETs. Audit held that the bidder was bound to submit quotation according to tendered requirements but failed to offer “buy-back” option, hence, was non-compliant.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to conduct a fact-finding inquiry and submit the report within two months.

Audit recommends to implement the DAC decision.

[DP Nos. 1986 & 2045]

#### ***2.2.4.22 Non-auction of unserviceable / scrap / obsolete items - Rs 385.421 million***

According to procedure for disposal of unserviceable material (asset/scrap) issued vide letter dated September 25, 2018. The objective of these SOP are for proper control on inventory, an effective system to identify all material which have ceased to be useful to the company shall operate continuously, so that immediate follow up action is possible for their timely discarding and disposal to recover maximum return.

During audit of OGDCL for the FY 2021-22, it was observed that management failed to auction 2,220 items having value of Rs 384.031 million were lying at KPD, Chak Nurang and Kot Adhu Auction Yards of the company. These items were transferred to these auction yards from different locations of company across the country. Similarly 1,390 items valuing Rs 1.390 million including air conditioners, vehicles (Hilux Pickup Single etc.), printers having value of Rs 1,000 each were shown at different locations of company. Date of service of these items ranged from 1978 to purchase 2010. The status of these items was required to be determined and thereon be shifted to auction yard for auction. The nature of items showed that these items were completed their useful life and required to be auctioned. The goods of Rs 385.421 million were deteriorating due to rusting and dust due to non-auction.

Audit was of the view that due to weak internal control, un-justified delay occurred which ultimately reduced the sales proceed.

The matter was reported to the management during September, 2022. The management, in its reply dated December 9, 2022, stated that auction was in process.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to expedite the process of auction. No further progress was reported till finalization of the report.

Audit recommends to implement the DAC decision besides improving the system to avoid abnormal delay in auction process.

[DP No. 2019]

***2.2.4.23 Loss due to non-award of contract to the second lowest bidder - Rs 125.649 million***

According to clarification of PPRA dated February 15, 2021, the annulment of procurement process in terms of PPRA Rule 33 is not attracted in case of escape of the successful bidder. Para 4 of the above letter states that “in case of escape of the most advantageous (or lowest evaluated) bidder after the issuance of evaluation report (and / or acceptance of any proposal by the procuring agency), there is no available lowest evaluated bidder other than the second one, who should be substituted as the most advantageous bidder, after forfeiting the securities of the escapee(s), if any.

During the audit of OGDCL for the FY 2021-22, it was observed that the management awarded 12 months services contract to M/s GJ Allied Services Private Ltd. being lowest bidder for Rs 490.303 million for 26-line items and 1,164 personnel of different type. However, the bidder failed to submit 10% Performance Bank Guarantee and bid bond of Rs 8.607 million was confiscated. However, instead of awarding the contract to the second lowest bidder for Rs 493.404 million, the case was re-tendered with 37-line items along with 1,559 personals. Moreover, duration of the project was also decided as 09 months or till the completion of project. Finally, contract was awarded to M/s Latif Petroleum & Engineering Services Private Ltd. for Rs 495.702 million whereas, in case contract would have been awarded to second lowest bidder proportionate amount for 09 months contract would be Rs 370.053 million resulting in loss of Rs 125.649 million due to non-award of contract to the second lowest bidder.

Audit was of the view that deviation from PPRA clarification and non-award of contract to second lowest bidder resulted into loss of Rs 125.649 million.

The matter was reported to the management in August, 2022. The management, in its reply dated December 9, 2022, stated that the bidder failed to submit 10% Performance Bank Guarantee due to which LOI was cancelled. The 2<sup>nd</sup> bidder was offered, however, he rejected offer of the company. Thus, retendering of the case was initiated.

The DAC, in its meeting held on December 30, 2022 directed the management to get the stated stance verified from Audit with reference to actual expenditure incurred against approved estimates. In compliance of DAC directives, management replied that the second lowest bidder was approached telephonically who did not agree to submit 10% PBG on OGDCL's terms and conditions and case was re-tendered. Reply was not tenable as offer through telephonic call was not a legal procedure and there was no room for such offer in the PPRA Rules 2004. Moreover, the management did not share actual expenditure incurred against approved estimates as directed by DAC.

Audit recommends to implement the decision of DAC besides fixing responsibility for non-awarding contract to second lowest bidder.

[DP No. 1989]

***2.2.4.24 Blockage of funds and expected loss due to expiry of shelf life of excess procured chemicals - Rs 24.023 million***

According to Clause 2.1 of Procurement Manual / procedure of OGDCL, all departments shall plan all proposed procurements on yearly basis with the object of realistically determining the requirement, within its available resources with complete justification with a view to procure the material / equipment / services economically. All such requirements shall be intimated to Supply Chain Management department.

During audit of OGDCL for FY 2021-22, it was observed that after codal formalities, the management procured 108,010 kgs of chemical namely Methyl Di Ethanol Amine (MDEA). While raising indent for procurement of chemical at Kunnar LPG Plant, the indenting department showed wrong consumption pattern of 47,730 Kg during FY-2018-19 and 51,170 Kg during FY-2019-20 and showed the requirement of 150,500 kg for next two years.

The average per day consumption of chemical was 98 Kg during last three year. The procured chemical shows the average consumption of 221.29 Kg per day which was 126% on higher side. The excess procurement of chemical resulted in blockage of funds and expected loss (in case of expiry of shelf life) amounting to Rs 24.023 million.

Audit was of view that due to poor inventory management excess quantity was procured.

The matter was reported to the management in August, 2022. The management, in its reply dated December 9, 2022, stated that the actual consumption for last four years including the borrowed material from calendar year 2018 to 2022 was 188,770 kg (878 drums) and fiscal year was 177,590 (826 drums) and hence average consumption was 220 drums / calendar year and 207 drums / fiscal year. The indented quantity raised in August, 2020 had still not been received. The variation in actual consumption and Oracle record was due to the reason that project leftover material was not incorporated in the Oracle stock. Reply was not tenable, as bid card / stock register of plant show that average per day consumption during last year was 106 Kg / days whereas management made procurement assuming average consumption of 221.29 Kg / days.

The DAC in its meeting held on December 29 & 30, 2022, directed the management (Senior Chemist, OGDCL) to conduct fact finding inquiry with reference to quantity procured, quality of chemicals, average consumptions, shelf life etc. and submit the report within two months.

Audit recommends to implement the DAC decision besides rationalizing the procurement according to actual need and shelf lives of chemicals.

[DP No. 2000]

## **Receivables / Financial Management**

### ***2.2.4.25 Non-deposit of unclaimed dividend in Government Account Rs 207.556 million***

According to Section 244 of the Companies Act, 2017, where dividend declared by a company remains unclaimed or unpaid for a period of three years from the date it is due and payable, the company shall give ninety days notices to the shareholders to file claim. If no claim is made by the shareholder, the company shall, after ninety days from the date of publication, deposit any unclaimed or unpaid amount as well as the proceeds from the sale of shares to the Federal Government in a profit bearing account with the State Bank of Pakistan or National Bank of Pakistan to be called “Companies Unclaimed Instruments and Dividend and Insurance Benefits and Investors Education Account” and shall be deemed to be part of public accounts and interest / profit accumulated thereon shall be credited on quarterly basis to the Fund. Every company within thirty days of the close of each financial year shall submit to the Commission a return of all unclaimed shares, or dividend in its books in the manner as may be specified by the Commission.

During audit of OGDCL for the FY 2021-22, it was observed that the company reflected unclaimed dividend of Rs 207.556 million under current liabilities in the Financial Statements as on June, 2022. The company neither took adequate actions relating to unclaimed dividend nor deposited the amount to the Federal Government by opening account.

Audit was of the view that weak financial management resulted in non-deposit of unclaimed dividend of Rs 207.556 million to the Federal Government.

The matter was reported to the management during September, 2022. The management, in its reply dated December 9, 2022, stated that SECP has issued

clarification regarding payment of unclaimed/unpaid amount of dividend in the light of Section 244 of Companies Act, 2017 read with Companies (Amendment) Ordinance, 2020 and advised that it not desired at present. Hence no further action regarding payment of divided was warranted at this stage as advised by SECP. The reply of management was not tenable, section of Companies Act was very clear regarding deposited of un-claimed dividend.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to follow the provisions of Section 244 & 245 of Companies Act and take up the case with SECP for clarification and future guidance. No further progress was reported till finalization of the report.

Audit recommends to implement the DAC decision.

[DP No. 2025]

***2.2.4.26 Non-recovery of liquidity damages / demurrage/detention charges from contractors / suppliers - Rs 71.128 million***

According to Clause 27(a) of Procurement Manual, If the contractor fails to deliver any or all of the goods within the time period(s) specified in the contract, the purchaser shall, 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 weeks, 1.0% per week for next four weeks and 1.5% maximum extent of 10% of the contract value”. Further according to clause 12 of Letter of Credit if clean documents free from discrepancy are not negotiated within period mentioned in LC or if the documents are withheld by bank on account of any discrepancy whatsoever, the demurrage or financial impact incurred due to late negotiation of clean documents will be on beneficiary account.

During audit of OGDCL for the FY 2021-22, it was observed that in 163 cases, the contractors / suppliers failed to provide the documents like commercial invoice, bill of lading, certificate of origin etc within stipulated time period and the goods could not be timely cleared from port. Due to late clearance/removal of goods, the management had to pay extra expense like demurrage charges, detention charges, IGM de-blocking charges etc. The demurrage charges were required to be recovered from the contractors/suppliers but management failed to recover the same. This resulted into non-recovery of

liquidity damages / demurrage / detention charges amounting to Rs 71.128 million.

Audit was of the view that due to weak financial control, demurrage charges, detention charges and IGM de-blocking charges of Rs 71.128 million could not be recovered from contractors and suppliers.

The matter was reported to the management in September, 2022. In the first case, the management, in its reply dated December 9, 2022, stated that out of Rs 67.165 million an amount of Rs 22.015 million had been recovered in 57 cases. 28 cases involving an amount of Rs 6.061 million had been regularized and remaining cases were under process. In the second case, it was explained that matter had been taken up with supplier for recovery of loss.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to get the recovered / regularized amount verified from Audit within a week and expedite the recovery of balance amount within one month. No further progress was reported till finalization of the report.

Audit recommends to implement the DAC decision.

[DP Nos. 2015 & 2041]

#### ***2.2.4.27 Non resolution of issue of rig stacking charges - Rs 45.945 million***

According to Clause 14 of Operating Agreement regarding Chak Nurang Field, save as otherwise provided herein, any difference or dispute between the participants arising out of or in connection with the term of this agreement which cannot be settled amicably between them shall be referred to arbitration with Articles XX of the Concession Agreement.

During audit of OGDCL for FY 2021-22, it was observed that management had not taken action for start of arbitration for recovery of outstanding rig stacking charges Rs 45.945 million from JV partner despite that amount was outstanding since 2009. Expenditure on account of rig stacking was incurred and charged to JV partners. But JV partner objected the stacking charges and did not pay the charges. The management had written only 3 letters since 2009 to 2022 to resolve this issue. This resulted in non-taking of action for arbitration for recovery of rig stacking charges for Rs 45.945 million.

Audit was of view that inaction by the management and weak financial controls resulted in non-recovery of outstanding amount.

The matter was reported to the management during September, 2022. The management, in its reply dated December 9, 2022, stated that POL's previous outstanding amount of US\$ 2.292 million against OGDCL was pending since long in lieu of Pindori Rig Rental. POL had linked OGDCL rig stack charges with their outstanding amount. The reply of management was not tenable as dues were pending since 2009 and efforts made by management were not sufficient.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to pursue the matter with M/s POL for early settlement of the issue. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2053]

## **Others**

### ***2.2.4.28 Irregular exemption due to non-fulfilment of condition of SRO - Rs 851.910 million***

According to Condition viii of SRO 678(1)/2004, dated August 07, 2004, each importer or E&P Company shall develop software within a period of one year from the date of issuance of said Notification and shall establish an online connection with the customs authorities for regulating the imports made under this notification. Further according to Section 156(10) of the Custom Act, 1969, If any condition, limitation or restriction imposed by Federal Government or by the Board for grant of partial or total exemption from customs duties is violated in respect of the goods on which exemption has been granted, such goods shall be liable to confiscation and the person to whom the exemption was granted shall be liable to a penalty not exceeding ten times the value of goods.

During audit of OGDCL for the FY 2021-22, it was observed that management failed to develop the software required under SRO ibid. The company imported goods valuing Rs 5,602.526 million and got the same cleared after availing exemption of duty & taxes of Rs 851.910 million during the year, under the benefit of SRO ibid. According to condition of SRO ibid, E&P Company was required to develop as software and establish an online connection with the customs authorities for regulating the imports made under SRO

678(1)/2004. This resulted into irregular exemption of duty and taxes of Rs 851.910 million.

Audit was of the view that weak internal controls resulted in irregular exemption of duty & tax. Similar nature para was also pointed out in audit reports 2021-22 [Para No. 2.2.4.19].

The matter was reported to the management during September, 2022. The management, in its reply dated December 9, 2022, stated that software could not be developed due to non-provision of guidance from Custom Authorities. If OGDCL or other E&P companies develop software at their own as laid down in the SRO *ibid*, inconsistencies may arise and would not serve the intended purpose. Thus, Custom Authorities should had developed the software at their own and the companies should contribute towards the cost of the development of the software. The same was also recommended by DG (PC) to FBR. Reply of management was not tenable, as exemption was being availed without fulfilling the conditions of SRO.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to seek clarification from FBR and share the outcome with Audit.

Audit recommends to implement the decision of DAC besides development of software as requirement of SRO.

[DP No. 2009]

***2.2.4.29 Misappropriation of operational expenditure on stacked rigs - Rs 252.885 million***

According to Rule 5(5) of the Corporate Governance Rules, 2017, the board shall establish a sound internal control system, which shall be effectively implemented at all levels within the PSEs to ensure compliance with the fundamental principles of probity and propriety

During audit of OGDCL for the FY 2021-22, it was observed that Rig No. 750-K was stacked in Kot Sarang base store since November 08, 2020 and was not in operation since then. Similarly, Rigs, 125 & 307 were auctioned 4 years ago i.e. June 11, 2018. But the management charged expenditure against mentioned rigs during stacking period even on two rigs which were not actually exist and during the period expenditure was incurred. The staff remained deployed with the rig which resulted in payment of extra field allowances,

hardship allowance, messing allowance, production allowance and other financial benefits to the employees. Further, the vehicle fuel, repair charges were also incurred. During the period under audit, the company incurred expenditure of Rs 252.885 million as detailed below:

(Rs in million)			
Description of expense	Rig No. 750-K	Rig 125& 307	Total
HR-related expense	76.081	0.349	76.431
Store Inventory-MTL	8.430	0	8.43
Purchases Invoice	35.636	0	35.636
Operational Supplies	1.626	0.122	1.748
Vehicle fuel, repair & POL-HSD	0.751	0	0.751
Depreciation Expense	0.408	0.048	0.456
Allocated Expense	127.552	1.881	129.433
<b>Total</b>	<b>250.484</b>	<b>2.40</b>	<b>252.885</b>

Audit was of the view that negligence of the management resulted in misappropriation of Rs 252.885 million.

The matter was reported to the management during September, 2022. For first case, the management, in its reply dated December 9, 2022, stated that Rig No. K-750T was stacked at Kot Sarang yard for assessment and evaluation and minimum crew remained posted at the rig for maintenance and preservation of the serviceable equipment. The actual expenditure charged was only Rs 14 million. For second case, it was explained that Rig No. 307 was auctioned in June, 2018 and Rig No. F-125 was auctioned in March, 2020. The expenses shown in the Audit Para were adjusting entries and there was no expense as on June 30, 2022 on both head of accounts. Reply was not tenable as these figures were based on general ledger after adjusting entries.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to get the stated stance verified from Audit with a week besides rationalization of booking of cost allocation and utilization of HR at other places where there was shortage. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP Nos. 2012 & 2029]

***2.2.4.30 Non-securing of lease agreements and loss of government revenue due to non-registration of lease agreements - Rs 229.084 million***

According to Section 17(d) of the Registration Act, 1908, leases of immovable property from year to year, or for any term exceeding one year, or reserving a yearly rent shall be registered. According to Article I (1)(c) of table of fees of the Registration Act 1908, registration fee on lease is chargeable on at the rate of 5/8 of the stamp duty payable on that lease and according to Article 35 of Stamp Act 1899, stamp duty shall be charged @ 3.25% on the average annual rent of the lease.

During audit of OGDCL for the FY 2021-22, it was observed that the management paid Rs 4,337.696 million against lease agreements for hiring of land for plant, field and building for regional offices, transit camps and medical centres. However, the management failed to register the said agreements under the Act *ibid*. Further, government was deprived of revenue of Rs 229.084 million (stamp duty Rs 140.975 million and registration fee Rs 88.109 million). This resulted in non-securing of company's lease agreements valuing Rs 4,337.696 million and loss due to non-registration of lease agreements of Rs 229.084 million.

Audit was of the view that due to non-registration of lease agreements, these could not be enforced by law and government was deprived off from its due share.

The matter was reported to the management in September, 2022. The management, in its reply dated December 9, 2022, stated that efforts were made to acquire the land on permanent basis however due to different reasons it could not be materialized. The matter would be taken up with district governments to get registered the referred premises in order to incorporate the lease agreements and release of registration fee and other applicable taxes to the governments.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to take up the matter with District Administration (Revenue Department) for registration of lease agreement and share the outcome with Audit. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2004]

**2.2.4.31 Inaction by the OGDCL resulting in blockage of revenue due to sale of off-spec Gas on provisional basis - Rs 161.460 million**

According to Clause 9.03 of the Bobi Gas Sale Purchase Agreement between OGDCL (the seller) and SSGC (the buyer), all off-specification gas from the Bobi Gas Field which buyer may take delivery of following any buyer's notice or to any buyer's response making an election to accept delivery shall be at eighty percent (80%) of the Gas Price.

During audit of OGDCL for the FY 2021-22, it was observed that OGRA was notifying the provisional wellhead gas prices of the Bobi Gas Field since January 01, 2007 and last notification was issued vide No.10-9(59)/2010 dated June 04, 2018 @ Rs 340.67 per MMBTU (discounted price Rs 272.54 @ 80%) for the period from Jan, to June, 2018. Time and again OGRA advised OGDCL to provide attested copy of Gas Pricing Agreement for issuance of final price notification. However, up to September 12, 2022, the matter could not be resolved by the management. Resultantly, off-spec gas valuing Rs 2,018.272 million was sold on provisional pricing basis during the period from July, 2018 to June 2022 and an amount of Rs 161.460 million (8% of Rs 2,018.272 million) was blocked for the same period due to sale of off-spec Gas of Bobi Field on provisional basis as detailed below:

Sr. No.	Period	Final unit price per MBTU (Rs)	% increase
1	July to December, 2016	138.53	-
2	January to June, 2017	204.90	47.91%
3	July to December, 2017	252.16	23.06%
4	January, 2018 to June, 2018	272.54	8.08%
5	July, 2018 to onwards	294.34	8%

Audit was of the view that inaction of management resulted into blockage of Rs 161.46 million due to non-finalization of GPA since July, 2018 in respect of Bobi Field.

The matter was reported to the management in September, 2022. The management, in its reply dated December 9, 2022, stated that initially Bobi GPA was under MoE approval since 2018. Last reminder was sent on May 16, 2022

for earliest approval of Bobi GPA. MoE asked some documents of Bobi field to proceed further which were provided. Response from MoE was still awaited.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to pursue the case with Petroleum Division (DG (PC / Gas) for early finalization of GPA / GSA. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 1997]

#### ***2.2.4.32 Wasteful operational expenditure on surrendered lease - Rs 96.430 million***

According to Rule 5(5) of the Corporate Governance Rules, 2017, the board shall establish a sound internal control system, which shall be effectively implemented at all levels within the Public Sector Company to ensure compliance with the fundamental principles of probity and propriety. The principle of probity and propriety entails that due economy is exercised.

During audit of OGDCL for the FY 2021-22, it was observed that management incurred wasteful expenditure on five surrendered / expired exploratory leases / blocks. The five leases / block i.e. Khanpur, Zorgarh, Kulachi, Latamber and Shan lease were surrendered on February 01, 2020, August 28, 2020, January 01, 2021 and April 01, 2021 respectively. This resulted in wasteful expenditure of Rs 96.430 million as detailed below:

(Rs million)	
<b>Description of expense</b>	<b>Amount</b>
Exploration Licenses	0.960
Audit Services	0.172
Exploration(GHPL)	15.746
Exploration-concession	1.921
Exploration Sindh Energy Holding	10.359
Joint interest billing	0.511
G&G Services	25.594
Allocated Cost (E&P Division,)	19.024
Training-PCA	22.143
<b>Total</b>	<b>96.430</b>

Audit was of the view that due to negligence of the management wasteful expenditure of Rs 96.430 million was incurred surrendered / expired exploratory leases.

The matter was reported to the management in November, 2022. The management, in its reply dated December 9, 2022, stated that it was routine practice in E&P sector to pay all accrued liabilities as and when all legal approvals become due. The expenditures made in mentioned leases must be expensed out in their head of accounts irrespective of date of payment. Reply was not tenable as incurrence / booking of expense on surrendered leases was wasteful expenditure.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to get the stated stance verified from Audit within a week. No further progress was reported till finalization of report.

Audit recommends to implement the decision of DAC.

[DP No. 2305]

***2.2.4.33 Misuse of CSR fund on road construction for operational use - Rs 65.150 million***

According to Section 5(7)(j) of Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall also formulate significant policies of the Public Sector Company including Corporate Social Responsibility initiatives including, donations, charities, contributions and other payments of a similar nature. The significant issues shall, inter-alia, include the report on Corporate Social Responsibility (CSR) activities;

During audit of OGDCL for the FY 2021-22, it was observed that management constructed road measuring 12.21 Km with CSR funds but actually the road was constructed for operational needs of Kunnar Plant Field which was not covered under CSR activities. This resulted into misuse of CSR funds on road construction for operational need of company of Rs 65.150 million.

Audit was of the view that weak internal controls resulted in misuse of CSR fund on road construction for operational need of the company.

The matter was reported to the management in September, 2022. The management, in its reply dated December 9, 2022, stated that the construction /

repair of TST Roads approx. 12.5 km KPD-TAY and Kunnar area Hyderabad were based on demand of local community in particular and OGDCLs smooth operational activities in general. Since OGDCLs different well locations fall in the said area. The reply of management was not tenable construction of road like Kunnar plant gate to plant well and plant well to Kunnar No. 01, steel bridge to Kunnar No. 11 and then to Kunnar Deep No. 09 was for operational need of company.

The DAC in its meeting held on December 30, 2022 directed the management to get the stated stance verified from Audit within a week. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2017]

***2.2.4.34 Loss of government revenue due to non-payment of Sales Tax on crude oil - Rs 50.918 million***

According to Section 3(1) (a) & 2(46) of The Sales Tax Act, 1990, there shall be charged, levied and paid a tax known as Sales Tax at the rate of seventeen per cent of the value of taxable supplies made by a registered person in the course or furtherance of any taxable activity carried on by him in respect of a taxable supply. The value of supply means the consideration in money including all Federal and Provincial duties and taxes, if any, which the supplier receives from the recipient for that supply but excluding the amount of tax

During audit of OGDCL for the FY 2021-22, it was observed that management did not pay Sales Tax on consideration received in respect of crude oil lost during transit. The crude oil was lost during transit due to fault of transporters and company recovered its loss from transporter but did not pay the Sales Tax on consideration received in this regard. This resulted in loss of Rs 50.918 million to government revenue due to non-payment of Sales Tax on consideration received.

Audit was of the view that due to weak financial control resulted in loss to government exchequer due to non-payment of Sales Tax.

The matter was reported to the management in September, 2022. The management, in its reply dated December 9, 2022, stated that there was no revenue loss to national exchequer because the company had not contravened

any provision of Sales Tax Act, 1990. The reply of management was not tenable as sales tax was required to be paid as company had made its own loss good but due share of government revenue was not being paid.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to take up the matter with FBR for guidance in the matter. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides to take action in light of clarification from FBR.

[DP No. 2011]

***2.2.4.35 Non-payment of Customs Duty on sale proceeds of obsolete items - Rs 10.815 million***

According to Condition vi(a) of SRO 678(1)/2004, dated August 07, 2004, items imported at concessionary rates which become surplus, scrap, junk, obsolete or otherwise shall be disposed of in the following manner, namely in the event an item other than vehicles, is sold to another company in the petroleum sector no import duties shall be levied or charged. Otherwise, it shall be sold through a public tender and duties shall be recovered at the rate of ten per cent ad valorem of the sale proceeds. Further, according to Section 156(10) of the Customs Act, 1969, if any condition, limitation or restriction imposed by Federal Government or by the Board for grant of partial or total exemption from customs duties is violated in respect of the goods on which exemption has been granted, such goods shall be liable to confiscation and the person to whom the exemption was granted shall be liable to a penalty not exceeding ten times the value of goods.

During audit of OGDCL for the FY 2021-22, it was observed that management sold items including scrap, junk and obsolete items which were imported and did not deposit Customs Duty on sale proceed realized from auction. The violation occurred repeatedly since 2004. This resulted in non-payment of customs duty on sale proceeds amounting to Rs 10.815 million.

Audit was of the view that weak financial control resulted in non-payment of customs duty of Rs 10.815 million. Similar nature paras were also pointed out in audit reports 2021-22 [Para No. 2.2.4.16] of Rs 538.832 million.

The matter was reported to the management during September, 2022. The management, in its reply dated December 9, 2022, stated that most the lots were “locally procured”, therefore, the conditions of SRO 678 were not applicable. The vehicles, machinery and other Lots of foreign material were procured prior to the application of SRO 678/2004. However, Sales Tax and advance tax at standard rates, applicable on auction of any unserviceable items, was collected and deposited in Government Treasury. Reply of the management was not tenable, as only foreign origin items were pointed out in para and all items were imported after promulgation of SRO.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to get the stated stance verified from Audit within a week. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2010]

***2.2.4.36 Non-compliance to government notification regarding minimum wages - Rs 7.541 million***

According to Notification No. ADLW-8(20)/ICT/2021-1452 AND 1453 dated August 06, 2021, the Chief Commissioner ICT, Islamabad fixed minimum monthly wages of un-skilled workers and the Juvenile Workers in all the industrial/commercial establishment in the I.C.T, Islamabad @ Rs 20,000 per month w.e.f July 01, 2021.

During audit of OGDCL for FY 2021-22, it was observed that management paid salaries less than Rs 20,000 per month to employees during the FY 2021-22. This was in violation of government notification regarding minimum wages amounting to Rs 7.541 million.

Audit was of the view that payment of less wages than minimum fixed wages by the government was violation of rules and deprived the employees from their due right.

The matter was reported to the management during September, 2022. The management, in its reply dated December 9, 2022, stated that Government instructions regarding minimum wages were already in line with minimum wage. The employees were being paid through the payroll of the company. They were eligible of number of allowances and their package increases annually.

Therefore, the said letter was not applicable to this category of employees. The reply of management was not tenable, as gross salary being paid was less than minimum wages.

The DAC in its meeting held on December 30, 2022 directed the management to made payment of differential amount to eligible low paid employees subject to attendance of employees within 45 days and share the outcome with Audit.

Audit recommends to implement the DAC decision and ensure compliance of law of land besides fixing responsibility for violation.

[DP No. 2038]

#### ***2.2.4.37 Non-achievement of target of exploration and production despite the shortage of gas and oil***

According to vision and mission statement of OGDCL, to be a leading multinational Exploration and Production Company and to become the leading provider of oil and gas to the country by increasing exploration and production both domestically and internationally, utilizing all options including strategic alliances; to continuously realign ourselves to meet the expectations of our stakeholders through best management practices, the use of latest technology and innovation for sustainable growth while being socially responsible.

During audit of OGDCL for the FY 2021-22, it was observed that management failed to achieve the target for exploration and production consecutively during last three years as detailed below:

Description of activity		Target Non-achievement percentage of the target		
		2019-20	2020-21	2021-22
2-D Line-Kms	In-house & outsource	15%	47%	53%
3-D Line-Kms	In-house & outsource	100%	-	43%
Well	(Exploratory / Appraisal / Work over	17%	56%	40%
Production / Quantity Sold	Oil (BOPD)	15%	4%	12%
	Gas (MMCFD)	17%	15%	25%
	LPG (MTD)	17%	-	5%

As per vision and mission statement, the company was required to accelerate the exploration activities. Shortage of gas and oil in country also require more exploration and production activity, but on the contrary the

management failed to achieve its targets. The target set by management also show declining trend and even that was not achieved. Due to non-achievement of exploration and production target, the company could not generate potential revenue amounting to Rs 38,911 million (approx.).

Audit was of the view that inefficiency of the management resulted in reduction in exploration and production of the company.

The matter was reported to the management in November, 2022. The management, in its reply dated December 9, 2022, stated that mostly the main reason of persistent decline in production was attributed to the age of the fields i.e. most of the fields operated by OGDCL were functional for last 20 or more than 20 years. Therefore, these fields were depleting due to high water production and decline in reservoir pressure with the passage of time which was a natural phenomenon. Production Department consistently struggled to optimally produce the proven reserves in economically viable manner. Reply of management was not tenable as management failed to achieve its planned targets.

The DAC in its meeting held on December 29 & 30, 2022, directed the management to expedite the efforts for achievement of targets and get the stated stance verified from Audit with supporting documents within a week. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2301]

## **2.3 Pakistan Petroleum Limited**

### **2.3.1(A) Introduction**

Pakistan Petroleum Limited (PPL) is one of the oldest Exploration and Production (E&P) companies in the country having its registered office at PIDC House, Dr Ziauddin Ahmed Road, Karachi. 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. The company's current exploration and production portfolio is spread across Pakistan with international presence in UAE, Iraq and Yemen. PPL also holds mineral rights in Balochistan through Bolan Mining Enterprises (BME), a 50:50 joint operation between PPL and Government of Balochistan. The company has three wholly owned subsidiaries: PPL Europe E&P Limited (PPLE), PPL Asia E&P B.V. (PPLA) and Pakistan Petroleum Provident Fund Trust Company (Private) Limited (PPPFTC). Subsequent to financial year 2020-21, a new company was formed with the name of Pakistan International Oil Limited by PPL, OGDCL, MPCL and GHPL; each subscribed 25% share capital. The company is formed for exploration activities in UAE.

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.

### **2.3.1 (B) Comments on Company Performance**

The company performance in terms of profitability reflects having 65% of Gross Profit ratio, 26% Net Profit Ratio and 12% return on equity. The liquidity position of the company is also sound as indicated by the liquidity ratio of 3.52 and current ratio of 3.57. However, despite the good liquidity position the company's debtor turnover ratio is alarming as it stood 0.64 times which means the average collection period of the company is 571 days, which is abnormal.

The comparison of production and sale of hydrocarbon by PPL for the last six years is as under:

**Six Years comparison of Production and Exploration**

<b>Hydrocarbon</b>	<b>2021-22</b>	<b>2020-21</b>	<b>2019-20</b>	<b>2018-19</b>	<b>2017-18</b>	<b>2016-17</b>
Natural Gas production (MMscf)	263,481	276,309	283,792	317,457	323,007	329,367
Condensate ("000" Bbl)	1,077	715	781	792	737	383
Oil / NGL production ("000" Bbl)	4,560	4,417	4,361	5,076	5,058	5,565
LPG Production (M. Tons)	116,498	115,835	107,114	116,723	95,332	81,267

(Source: Annual Audited Account)

**Sales of Hydrocarbon**

<b>Hydrocarbon</b>	<b>2021-22</b>	<b>2020-21</b>	<b>2019-20</b>	<b>2018-19</b>	<b>2017-18</b>	<b>2016-17</b>
Natural Gas Sales (MMCF)	223,133	237,187	246,619	278,296	284,828	288,483
Oil/NGL Sales (thousands bbl)	4,481	5,141	5,061	5,753	5,948	5,948
LPG Sales (M. tons)	116,083	115,601	107,421	117,194	81,038	81,038

(Source: Annual Audited Account)

## 2.3.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 197,259.381 million were raised in this report during the current audit of PPL. This amount also includes recoverable of Rs 176,117.274 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

**Overview of Audit Observations**

(Rs in million)

<b>Sr. No.</b>	<b>Classification</b>	<b>Amount</b>
1	Irregularities	-
A	Management Related Irregularities	159.200
B	E&P Related Irregularities	21,142.107
C	Receivable Management	175,958.074
D	HR/Employees Related Irregularities	-

### 2.3.3 Compliance of PAC Directives

<b>Audit Year</b>	<b>Total Directives</b>	<b>Compliance Reported</b>	<b>Compliance Awaited</b>	<b>% age of Compliance</b>
2009-10	2	2	-	100
2010-11	9	1	8	11
2011-12	6	3	3	50
2012-13	4	1	3	25
2013-14	8	5	3	63
2014-15	11	3	8	27
2015-16	6	6	-	100
2016-17	9	7	2	78
2017-18	9	8	1	89
2018-19	12	9	3	75
2019-20	1	0	1	-
<b>Total</b>	<b>77</b>	<b>45</b>	<b>32</b>	<b>58%</b>

The overall compliance of PAC directives needs to be further improved.

## **2.3.4 Audit Paras**

### **Management Related Irregularities**

#### ***2.3.4.1 Non-settlement of insurance claims with NICL - Rs 159.200 million***

According to Section 118(I) of the Insurance Ordinance 2000, it shall be implied term of every contract of insurance that where payment on a policy issued by an Insurer becomes due and the person entitled thereto has complied with all the requirements, including the filing of complete papers, for claiming the payment, the Insurer shall, if he fails to make the payment within a period of ninety days from the date on which the payment becomes due or the date on which the claimant complies with the requirements, whichever is later, pay as liquidated damages.

During audit of PPL for the FY 2021-22, it was observed that in 04 cases the management filed insurance claims of Rs 159.200 million to NICL against damages occurred in the equipment and installations at PPL fields during April, 2018 to February, 2020. However, the management failed to recover insurance claims after lapse of long time. This resulted in non-settlement of insurance claims of Rs 159.200 million.

Audit was of the view that it was a failure on the part of management for non-resolution of the matter within 90 days as envisaged in Section 118(I) of the Ordinance *ibid*.

The matter was reported to the management in September, 2022. In DAC meeting held on January 11, 2023, the management explained that one insurance claim relating to “Fire incident at SNGPL Line” amounting to Rs 12.810 million had been settled by NICL and documents were also shared with the auditors and remaining three claims were being pursued with NICL.

DAC reduced the para to the extent of recovered / settled and verified amount of fire incident claim and directed to expedite the recovery in remaining cases within one month. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2246]

## **E&P Related Issues**

### ***2.3.4.2 Revenue loss due to lesser off take by GENCO-II - Rs 21,142.107 million***

According to Clause 6.1 of Gas Sales Agreement for Kandhkot Gas Field executed between Pakistan Petroleum Limited (Seller) and Central Power Generation Company Ltd. (Buyer) on October 23, 2017, the seller will supply 180 MMSCFD of specification gas which will gradually be increased to 200 MMSCFD per Contract Year.

During audit of PPL for the FY 2021-22, it was observed that GENCO-II had taken only 34,890 MMCF gas only against the committed volume of 72,000 MMCF meaning thereby off taking a less quantity of 37,110 MMCF from Kandhkot Gas Field. Due to less off take by the GENCO, PPL was forced to curtail its daily production of gas. This resulted in revenue loss of Rs 21,142.107 million due to less production of gas / lesser off take.

Audit was of the view that non-implementation of terms of contract resulted in revenue loss of Rs 21,142.107 million.

The matter was reported to the management in September, 2022. In DAC meeting held on January 11, 2023, the management explained that GENCO-II was the sole buyer of Kandhkot Gas Field and PPL was responsible to provide gas to Point of Delivery (POD) as per agreement. The less gas-off take was due to capability of GENCO-II plant and other various factors such as NPCC restrictions, merit order and maintenance issues etc. These points were also considered in Technical Committee Report.

The DAC directed the management to share the Technical Committee Report with Audit.

During verification dated February 03, 2023 the management provided Technical Committee Report dated April, 2020, which showed incapability of GENCO-II to maintain gas-off take at the committed gas quantity.

Audit recommends to adopt remedial measures and to take up matter with DG (Gas) for allocation of excess gas.

[DP Nos. 2247 & 2250]

## **Receivable Management**

### ***2.3.4.3 Non-recovery of outstanding default amount from various customers - Rs 175,958.074 million and non-charging of Late Payment Surcharge***

According to Clause 17.3.1 of Gas Sale Agreement between PPL and various customers, the buyer shall pay seller's monthly invoice, excluding the Excise Duty and Sales Tax, within 30 days on receipt of invoice. Further, Clause 17.3.3, imposes late payment surcharge at the rate of six months Pakistan Treasury Bill in the case of delayed payment.

During audit of PPL for the FY 2021-22, it was observed that an amount of Rs 175,958.074 million was lying outstanding against various customers, as on June 30, 2022. Out of the total outstanding dues the aging of an amount of Rs 96,614.109 million was 03 months to 01 year, whereas, according to agreement the permissible time frame was up to 30 days of the sales invoice. After allowing lead period, non-recovery of outstanding balances beyond 90 days was a serious matter. Under the Rule in case of default by the customers, Late Payment Surcharge (LPS) was also leviable. This resulted in non-recovery of outstanding default amount from various customers of Rs 175,958.074 million and non-charging of Late Payment Surcharge.

Audit was of the view that due to poor receivable management the outstanding amount was not recovered by the management.

The matter was reported to the management in August, 2022. In the light of documents provided for verification, the management had recovered an amount of Rs 24,368.437 million leaving behind an outstanding amount of Rs 151,589.637 million.

In DAC meeting held on January 11, 2023, the management explained that this was circular debt issue. DAC reduced the para to the extent of recovered amount and directed to expedite the balance recovery within one month. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2292]

## **HR / Employees Related Irregularities**

### ***2.3.4.4 Irregular appointment of Special Graduate Trainee Engineers & Diploma Holders***

According to Clause 3.3 of HRM Policy, the company is committed to provide equal employment opportunities and follows the diversity and inclusion strategy in compliance with the requirement of applicable law and agreements, provided the candidates fulfil the defined criteria, without any discrimination on the basis of gender, race, religion, colour, ethnic origin, marital status or social class.

During audit of PPL for the FY 2021-22, it was observed that thirty nine Special Graduate Trainee Engineers / Special Trainee Diploma Holders were selected through advertisement on fixed monthly salaries. These candidates were likely to be inducted in the company on permanent basis after the completion of 2 years. However, at the time of advertisement no age limit was prescribed. Nine candidates exceed the age of twenty eight years which was fixed in case of regular on job training programme. This resulted in irregular appointment of Special Graduate Trainee Engineers & Diploma Holders.

Audit was of the view that due to poor HR management undue favour was extended to the candidates.

The matter was reported to the management in November, 2022. In DAC meeting held on January 11, 2023, the management explained that HRM Policy would be reviewed in the light of audit recommendations.

The DAC directed the management to place the revision of HR Policy before the Board in the next meeting. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2298]

## **2.4 Pakistan State Oil Company Limited**

### **2.4.1(A) Introduction**

The Government of Pakistan took over Pakistan National Oil (PNO) on January 01, 1974 and merged PNO with Dawood Petroleum Limited (DPL) as Premier Oil Company Limited (POCL). On June 03, 1974, Petroleum Storage Development Corporation (PSDC) came into being. PSDC was then renamed as State Oil Company Limited (SOCL) on August 23, 1976. Following that, the M/s Esso Undertakings was purchased on September 15, 1976 and control was vested with SOCL. On December 30, 1976 the Premier Oil Company Limited and State Oil Company Limited were merged as Pakistan State Oil (PSO). Now, PSO is a Public Limited Company incorporated under the Companies Ordinance, 1984 (now Companies Act, 2017) and is listed on Pakistan Stock Exchange.

Pakistan State Oil Company Limited (PSO) is the largest oil marketing company of Pakistan dealing with purchase of both local and imported, storage, sales and marketing of petroleum products. PSO has 51% market share and a widespread network comprising of 3,500 retail outlets, 9 installations, 23 depots, refueling facilities at 10 airports, two lubricant manufacturing facilities and LPG storage & bottling facilities. PSO is currently engaged in marketing and distribution of various POL products including Motor Gasoline, High Speed Diesel (HSD), Furnace Oil (FO), Jet Fuel (JP-1), Kerosene, CNG, LPG, Petrochemicals, and Lubricants. In addition to these products, the Company is entrusted with the responsibility of importing LNG through long term agreements with Qatar Gas (QG) and Qatar Petroleum (QP) since February, 2016.

### **2.4.1(B) Comments on Company Performance**

The financial performance of the company for the last five years is given below:

	(Rs in million)				
	<b>2021-22</b>	<b>2020-21</b>	<b>2019-20</b>	<b>2018-19</b>	<b>2017-18</b>
Net Sales	2,541,730	1,223,678	1,108,358	1,154,298	1,063,744
Gross Profit	178,127	57,255	12,227	36,017	39,636
Other Revenues	25,348	19,415	10,210	7,559	7,911
Marketing & Administrative Exp.	17,765	15,737	14,806	12,414	11,929
Other Exp.	14,772	4,053	220	4,699	3,334

Operating Profit	165,832	55,981	7,749	26,257	31,870
Finance Cost	5,962	11,554	13,427	8,987	5,123
Share of profit from associates	690	575	545	200	414
Profit before Taxation	160,560	45,003	(5,134)	17,477	27,160
Profit for the Year	<b>95,723</b>	<b>29,557</b>	<b>(6,466)</b>	<b>10,587</b>	<b>15,461</b>

(Source: Annual Audited Account)

PSO has made history, achieving an all-time high gross revenue of Rs 2.7 trillion during current year (FY 21: Rs 1.4 trillion) and a record profit after tax of Rs 95.7 billion (FY 21: Rs 29.5 billion) despite slowing market growth, volatile currency and the turbulent geo-political environment. The net profit translated into earning per share of Rs 194.4 (FY 21: Rs 62.63).

PSO is procuring LNG on take or pay arrangement from Qatar Gas under long term G-to-G contract, while there is no such arrangement between PSO and SNGPL, the largest consumer entity of gas. The company is continuously pursuing for the execution of the tri-partite agreement with SNGPL and SSGC to reduce its commercial risk. However, so far, PSO has not been successful due to resistance coming from SNGPL. Due to capacity and operational constraints, PSO is unable to handle rising demand of petroleum products, increasing demurrage cost over the last years causing unnecessary outflow of foreign exchange from the national exchequer.

## 2.4.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 46,752.950 million were raised in this report during the current audit of PSO. This amount also includes recoverable of Rs 42,372.931 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

### Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Financial Management	42,372.931
B	Procurement Related Irregularities	316.012
C	Project Management	1,021.804
D	Retail and Logistics	270.063
2	Others	2,772.140

### 2.4.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
1988-89	5	2	3	40
1993-94	7	4	3	57
1995-96	7	2	5	29
1996-97	6	5	1	83
1998-99	4	3	1	75
1999-00	7	5	2	71
2000-01	14	13	1	93
2002-03	6	3	3	50
2003-04	11	9	2	82
2004-05	8	6	2	75
2008-09	4	2	2	50
2009-10	1	0	1	0
2010-11	7	4	3	57
2011-12	9	4	5	44
2012-13	11	1	10	9
2013-14	17	9	8	53
2014-15	10	3	7	30
2015-16	19	16	3	84
2016-17	12	6	6	50
2017-18	12	12	0	100
2018-19	6	6	0	100
2019-20	4	1	3	25
<b>Total</b>	<b>187</b>	<b>116</b>	<b>71</b>	<b>62</b>

The overall compliance of PAC directives needs to be improved.

## **2.4.4 Audit Paras**

### **Financial Management**

#### ***2.4.4.1 Non-recovery of outstanding amount from customers - Rs 33,871.180 million***

According to terms of agreements executed between PSO and bulk buyers of petroleum products, buyers are liable to clear invoices within the prescribed period and in case of failure of making payment, LPS will be imposed at the rate of KIBOR plus 2% to 4%. Further, according to Card Credit Policy of the PSO, due date is usually 15<sup>th</sup> for sole proprietors and partnerships and 25<sup>th</sup> for Private, Public Limited Companies and Government accounts. Furthermore, Para 9.1 (i) & (ii) of Card Credit Policy states that non-Governmental Organization of Pakistan accounts are blocked by 20<sup>th</sup> and 30<sup>th</sup> of every month for due dates 15<sup>th</sup> and 25<sup>th</sup> respectively and GoP accounts are blocked after approval from CEC.

During audit of PSO for the FY 2021-22, it was observed that the management failed to recover receivables amounting to Rs 33,871.180 million from bulk customers like OGDCL, Railways, Aviation, Credit Cards, retailers and COCO sites etc. as on June, 30, 2022.

Audit was of the view that poor financial management resulted in non-recovery of outstanding amount of Rs 33,871.180 million.

The matter was reported to the management in October, 2022. In DAC meeting held on January 09, 2023, the management stated that out of total outstanding receivables of Rs 33,871.180 million, an amount of Rs 29,527.550 million had been recovered and balance amount of Rs 4,343.630 million was being recovered.

The DAC directed the management to get the recovered amount verified from Audit and expedite the recovery of balance amount of Rs 4,343.630 million within one month.

During verification dated February 03, 2023 management provided documentary evidence of recovered amount of Rs 9,530.065 million which was verified by Audit. Audit contended to recover the balance amount and get verified the remaining recovered amount of Rs 19,997.485 million from Audit. No further progress was provided till finalization of the report.

Audit recommends to implement the decision of DAC besides recovery of balance amount and get the same verified from Audit.

[DP Nos. 1984, 2127, 2208 & 2220]

***2.4.4.2 Non-recovery of outstanding receivables from HUBCO - Rs 8,501.751 million***

According to terms of agreements executed between PSO and buyers of petroleum products, buyers are liable to clear invoices within the prescribed period and in case of failure of making payment, LPS will be imposed at the rate of KIBOR plus 2% to 4%.

During audit of PSO for the FY 2021-22, it was observed that management failed to recover outstanding receivables (Circular Debt) amounting to Rs 8,501.751 million from HUBCO on account of supplies of POL products despite lapse of considerable time up to June 30, 2022.

Audit was of the view that weak financial management resulted in delay in recovery of receivables and it was also creating risk of conversion of these receivables into bad debts.

The matter was pointed out in October, 2022. In DAC meeting held on January 09, 2023, the management explained that an amount of Rs 8,501.751 million was recoverable from HUBCO which was part of circular debt.

The DAC directed the management to expedite the recovery of Rs 8,501.751 million within one month. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 1973]

**Procurement Related Irregularities**

***2.4.4.3 Irregular issuance of change order due to changing the cost and scope of the work after award of contract - Rs 123.841 million***

According to Clause 40(1) of PPRA, 2004, the procuring agency may negotiate with the successful bidder (with a view to streamline the work or task execution, at the time of contract finalization) without changing the cost and scope of work or services, on methodology, work plan, staffing and special conditions of the contract.

During audit of PSO for the FY 2021-22, it was observed that the management awarded development work of two Steel Storage Tanks at PSO Zulfiqarabad Oil Terminal having capacity of 31,000 M. Tone to M/s Al-Tariq Construction. Initial purchase order was issued on May 31, 2019 for Rs 1,134.092 million. However, on March 18, 2021 purchase order was changed by including an additional work resulting in increase in value of work by Rs 123.841 million as well as change in scope of work which was not permissible according to Rule ibid. This resulted in irregular issuance of change order of Rs 123.841 million.

Audit was of the view that weak procurement management resulted in irregular award of work due to change in scope of work in violation of Rules ibid.

The matter was reported to management in October, 2022. In DAC meeting held on January 09, 2023, the management explained that the requirement for change order arose due to change in operational circumstances at ZOT subsequent to commencement of White Oil Pipeline (WOP) multi-grade project. The change order was issued to the same contractor in order to maintain compatibility for conversion from HSD to PMG tanks and to avoid any warranty related disproportionate technical difficulties in operation and maintenance of these tanks. Audit contended that change in cost and scope of work, after award of contract was a clear violation of PP Rules.

The DAC directed the management to take up the matter with PPRA for clarification within one month. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2224]

#### ***2.4.4.4 Mis-procurement due to change in substance of the bid - Rs 98.513 million***

According to Rule 23(3) read with Rules 4, 31(1) & 40 of Public Procurement Rules, 2004, any information that becomes necessary for bidding or for bid evaluation, after the invitation to bid or issue of the bidding documents to the prospective bidders, shall be provided in a timely manner and on equal

opportunity basis. Where notification of such change, addition, modification or deletion becomes essential, such notification shall be made in a manner similar to the original advertisement. No bidder shall be allowed to alter or modify his bid after the bids were opened. However, the procuring agency may seek and accept clarifications to the bid that do not change the substance of the bid.

During audit of PSO for the FY 2021-22, it was observed that a tender for construction of steel structure canopies for HSD and PMG at M-5 Motorway was floated through press advertisement on November 21, 2021 and only two bidders were declared as technically qualified. Subsequently, commercial bids were opened on January 17, 2022. The case was presented in the Procurement Committee meeting on February 04, 2022 for approval. Due to high rates of construction of foundation of canopy, the committee advised to obtain clarification from bidder regarding scope of work and subsequent quoted rates. The same case was again presented in the PC meeting on February 16, 2022 while informing that M/s Elite Engineering included few extra items which were not part of scope of work. Thereafter, vendor vide letter dated February 10, 2022 reduced / revised their bids (site wise) amounting to Rs 98.512 million. After change of scope of work and revised bid, the committee approved the award of work order to the M/s Elite Engineering (Pvt) Ltd. Thus, changing the substance of the bid after opening of financial bids was in violation of Rules *ibid*. This resulted in mis-procurement due to change in substance of the bid - Rs 98.513 million.

Audit was of the view that weak procurement management resulted in mis-procurement of Rs 98.513 million due to change of the substance of the bid which was violation of Rules *ibid*.

The matter was pointed out in October, 2022. In DAC meeting held on January 09, 2023, the management explained that quoted rates for foundation work by vendor were comparatively higher. Accordingly, the matter was taken up with vendor for clarification. As the vendor had included few extra items in the bid which were not part of given scope of work so the vendor revised the bid. Since, the vendor was already the lowest therefore change resulted from bid clarification had no effect on the bidding process. Audit contended that permission to alter the financial bid after bid opening was violation of Rules *ibid*.

The DAC directed the management to get the stated stance verified from Audit.

During verification dated February 03, 2023 the management stated that earth filling and hard standing area were not required by PSO which the vendor had included in his bid, however, during the bid clarification phase, the vendor revised the quoted rates by excluding those extra items. Audit contended that as per purchase requisition, the work of earth filling was clearly mentioned vide serial number 1.004(2) in the scope of the work and PSO changed the scope of work and the vendor reduced the rates after bid opening which was not permissible in PPRA Rules.

Audit recommends to probe the matter to ascertain reasons for change in the substance of financial bid after opening of bid besides taking action against responsible person(s).

[DP No. 2132]

#### ***2.4.4.5 Irregular approval of contracts on direct contracting basis instead of competitive bidding – Rs 69.661 million***

According to Rule 42 sub-clause (c)(ii) of PP Rules, 2004, a procuring agency shall engage in direct contracting if only one manufacturer or supplier exists for the required procurement provided that the procuring agencies shall specify the appropriate fora, which may authorize procurement of proprietary object after due diligence.

During audit of PSO for the FY 2021-22, it was observed that case of Supply, Installation, Testing & Commissioning of Metering and Electronic Grounding System at various operations / locations of the company. The case was presented in 90<sup>th</sup> meeting of Procurement Committee on January 07, 2020. The Committee advised to conduct in-depth study to evaluate the possibility to move Smith Meters from other sites and then go for open tendering for new meters of any suitable brand. A team comprising of IT and operations facilities jointly reviewed the possibilities of shifting Smith Meters / Batch controllers from other locations to KTA and decided to shift accordingly, as there was no technical limitation and the same was executed for the ease of operation and maintenance. Despite availability of these meters in open market, the Procurement Committee approved the case for competitive bidding for future

tenders, wherever the requirement arises for such meters. Audit held award of contracts on direct contracting basis instead of competitive bidding misprocurement of Rs 69.661 million.

Audit was of the view that poor procurement management resulted in irregular approval of contracts on direct contracting basis instead of competitive bidding.

The matter was pointed out in October, 2022. In DAC meeting held on January 09, 2023, the management explained that Metering & Electronic Grounding Systems installed at all locations in PSO were of Technip FMC Smith USA & Scully USA respectively. Installation of additional systems of same manufacturer was a technical compulsion due to compatibility between existing and the new system. These systems were known worldwide for their accuracy and reliability.

The DAC directed the management to share technical report satisfying compatibility of the only procured equipment with existing IT infrastructure system with Audit within one month. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 1977]

#### ***2.4.4.6 Irregular award of contract without competitive bidding - Rs 23.997 million***

According to Rules 12(1) of PP Rules 2004, procurements over five hundred thousand Pakistani Rupees and up to the limit of three million Pakistani 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 PSO for the FY 2021-22, it was observed that the management availed Custom Clearing Agent Service from M/s Khurram Aurangzeb & Co. The company was supplying Furnace oil, HSD, PMG and Lubricants to MRDL and MHD as POL supplies were treated as export items. These custom clearing services were being availed by PSO without competitive bidding. According to minutes of Procurement Committee meetings, the

management paid an amount of Rs 23.997 million from April, 2019 to October, 2021 and the approval was solicited for issuance of confirmatory service order to M/s Khurram Aurangzeb & Co without advertising the same in two leading newspapers having wide circulation as well as on its own website. Thus, awarding contract of Rs 23.997 million without competitive bidding was a violation of Rules *ibid*.

Audit was of the view that weak procurement management resulted in availing of services of Rs 23.997 million of customs clearing agent.

The matter was pointed out in October, 2022. In DAC meeting held on January 09, 2023, the management explained that M/s Khurram Aurangzaib was the exclusive custom clearing agent as confirmed by Customs EPZs of Taftan and Gaddani dealing in POL export supplies operating at EPZs of Saindak and Dhudhar.

The DAC directed the management to get the ex-post facto approval regarding proprietary item by the committee. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2130]

## **Project Management**

### ***2.4.4.7 Inordinate delay in completion of projects - Rs 1,021.804 million***

According to Clause 5 of 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 PSO for the FY 2021-22, it was observed that the management neither installed Radar Gauges Project at 10 locations of terminals / depots nor implemented Turn-Key Solutions for integration at KTA project on 30 locations. Further, rehabilitation work of five old tanks due to their debilitated condition, pipeline link between PSO Booster Station and White Oil Terminal Station PARCO also could not be completed. The work was started after lapse of 7 to 9 months and could not be completed despite lapse of completion period. However, management did not take any action against the contractor. This

resulted in inordinate delay in completion of projects costing Rs 1,021.804 million.

Audit was of the view that poor project monitoring resulted in non-completion of different development works within time amounting to Rs 1,021.804 million.

The matter was reported to the management in October, 2022. In DAC meeting held on January 09, 2023, the management explained that installation of Radar Gauges was an ongoing process and was being carried out phase-wise as per availability of tanks and budget. Further, integration was carried out as a pilot project at KTA and upon successful integration, the management decided to carry out this project on annual basis at other locations. It was further explained that 01 out of 05 tanks had been commissioned and remaining 04 tanks were expected to be completed within allocated timelines of the project. Due to delay in approval from Port Qasim Authority (PQA) for Right of Way (ROW), Link Pipe line project execution was delayed. NOC from PQA had now been received on December 27, 2022.

The DAC directed the management to get the entire record verified by Audit, pursue the matter with concerned authorities vigorously, share the approved plan with Audit and complete the Radar Gauges installation.

During verification dated February 03, 2023 management provided tentative plan for installation of Radar Gauges i.e 16 tanks during FY 2022-23 & 08 tanks during FY 2023-24 respectively. In 02 other cases, copy of 3-year digital transformation roadmap of KTA, Machike & Sihala and Mehmoodkot & Shikarpur without any approval of competent forum along with a completion certificate of only one tank was provided. In other cases, copies of NOCs were provided. Audit contended that work on the project be completed.

Audit recommends to complete the projects without further delay.

[DP Nos. 2214, 2217, 2221, 2223 & 2225]

## **Retail and Logistics**

### ***2.4.4.8 Non-obtaining of insurance cover of POL products in transit causing loss of Rs 260.063 million and unjustified retention of non-compliant tank lorries***

According to Rule 53(xii) Part-IX of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, all licensees, in relation to their regulated activity, shall obtain and maintain insurance cover against accident-causing loss of life and property. Further, according to Clause 6(d) of agreement made with cartage contractor, the contractor shall ensure that the transport vehicles carrying the products under this agreement are duly calibrated as required under the laws and comply with all the requirements of weights and measures (International System Act, 1967) and the Rules made hereunder.

During audit of PSO for the FY 2021-22, it was observed that the management had a fleet of over 10,378 tank lorries through cartage contractors. The company used these tank lorries to dispatch the POL products from Karachi to upcountry locations. However, 7,203 lorries were non-compliant with OGRA standards as detailed below:

<b>No. Cartage Contractors</b>	<b>No. of fleet of Tank Lorries</b>	<b>No. of Tank Lorries (Compliance)</b>	<b>No. of Tank Lorries (Non-compliance)</b>	<b>% of no. of Tank Lorries (Compliance)</b>
457	10,378	3,175	7,203	30.59%

Audit holds that PSO was the largest oil marketing company of the country with a market share of 46.3%, in FY 2021 where it provided POL products to a range of fuel requirements of its individual as well as corporate clients including large number of corporations. The company depends heavily on road transportation system through cartage contractors but the management did not get insurance cover of POL products in transit which resulted in product loss of Rs 260.063 million as well as unjustified retention of non-compliant tank lorries.

Audit was of the view that weak internal controls resulted in non-obtaining of insurance cover causing a loss of Rs 260.063 million during transit of POL products as well as due to retention of large number of non-compliant tank lorries which was violation of license conditions.

The matter was reported to the management in October, 2022. In DAC meeting held on January 09, 2023, the management explained that decision of not obtaining insurance coverage of inland movement of petroleum products through tank lorries had commercial basis which had resulted in saving to the tune of approx. Rs 1 billion per annum. As regards to non-compliant tank lorries, it was explained that PSO, at present, had a fleet of around 3,500 OGRA & NHA compliant tank lorries which was sufficient to meet country's white oil transportation requirement in post Whit Oil Pipeline multi-grade commissioning scenario. However, the old tank lorries also meet certain safety parameters like OGRA approved 3<sup>rd</sup> party certification, annual calibration, equipped with trackers and drivers training. The matter was taken up with OGRA and MoE and decision about their final delisting would be taken accordingly.

The DAC directed the management to examine the case legally in respect of non-obtaining of insurance cover. DAC further directed the management to pursue the matter vigorously in respect of non-compliant tank lorries. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 1980]

#### ***2.4.4.9 Violation of condition of license due to excess supply of SKO to distributor against its storage capacity - Rs 10 million***

According to Rule 38 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, every oil marketing company shall supply the petroleum products to its retail outlets and its authorized agent, dealer or bulk consumer having licensed premises for storage of the petroleum products subject to the condition that the petroleum products supplied shall in no case, exceed the storage capacity of the agent, dealer or bulk consumers as the case may be. Further, according to Rule 69 (1&2) of Rules, *ibid*, 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.

During audit of PSO for the FY 2021-22, it was observed that license No. MUD/5005/P-MC Distt Khanewal was granted to M/s Abdul Rehman & Co. for supply of bulk Super Kerosene Oil (SKO). According to license, storage capacity

of 25,000 liters was described for Kerosene Oil. However, the distributor was supplied excess quantity of SKO 15,000 liters (40,000-25,000) in a single day on October 14, 2021 against its storage capacity which was in violation of the condition of license and the licensee was liable to be imposed a fine of Rs 10 million.

Audit was of the view that weak supply chain monitoring resulted in excess supply of SKO against storage capacity of the distributor in violation of rules.

The matter was reported to the management in October, 2022. In DAC meeting held on January 09, 2023, the management explained that customer raised demand for two days. The supply was to be made from PARCO. Since PARCO did not allow non-compliant tank lorries therefore, the only option was to allocate available complied tank lorry of 40,000 litres to execute the entire order. However, the decantation of tank lorry was done initially for 20,000 litres and subsequent to sale of this quantity the left over quantity were decanted.

The DAC directed the management to conduct internal fact-finding inquiry and share the outcome with Audit within three months.

Audit recommends to implement the decision of DAC.

[DP No. 2207]

#### ***2.4.4.10 Non-initiation of action against 373 illegal operative outlets resulted in non-imposition of penalty***

According to Section 3 of Petroleum Act, 1934 and Rule 90 of Petroleum Rules, 1937, no person shall deliver / dispatch any petroleum product to any one in Pakistan other than the holder of a storage license or his authorized agent or a Port Authority or Railway administration. Further, according to 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.

During audit of PSO for the FY 2021-22, it was observed that there were 373 illegal Outlets / Dabba Station, operating in the jurisdiction of PSO. These

outlets were selling POL products through pumps using PSO logos without license of the company. The illegal sale of POL products not only led to the supply of substandard products and effected good will of the company but also posed serious safety hazards to the public life and property. The management did not take strict action for removal of PSO logo from all such illegal Outlets / Dabba stations to eradicate these illegal activities within jurisdiction of PSO. Thus, non-initiation of action on illegal operative outlets resulted in non-imposition of penalty amounting to Rs 3,730.00 million.

Audit was of the view that negligence of the management resulted in non-imposition as well as non-realization of fine amounting to Rs 3,730 million.

The matter was reported to the management in October, 2022. In DAC meeting held on January 09, 2023, the management explained that OGRA was the authority to impose penalty on illegal operative outlets. PSO had numerous times informed all relevant authorities including CM Punjab, CS Punjab, IGP Punjab, DG (Oil) MoE, Explosives Department and OGRA for the closure of all illegal operative petrol pumps / Dabba stations as closure of such illegal outlets / Dabba stations was not responsibility of PSO.

The DAC, in the light of stance given by the management, decided to place the matter before the PAC.

Audit recommends to implement the decision of DAC.

[DP Nos. 2126 & 2211]

#### ***2.4.4.11 Non-termination of dealership license agreement due to non-renewal of expired lease***

According to Clause 12(a) of Shop Stop License Agreement, on expiry / determination of the license period, the purely contractual relation between the parties shall be determined and cease to exist and the licensee shall be deemed to be an unauthorized and illegal occupation of the licensed premises.

During audit of PSO for the FY 2021-22, it was observed that 226 agreements were made with dealers whose lease and agreement had either expired or not renewed after expiry. But their agreements were not terminated which was a violation of above-mentioned Clause of Shop Stop License Agreement. The cases of expired lease and agreements should have been addressed on priority basis by the management to avoid legal complications but

the management neither renewed nor terminated these expired lease / agreements.

Audit was of the view that due to negligence on part of the management expired dealership license agreement were neither renewed nor terminated.

The matter was reported to the management in October, 2022. In DAC meeting held on January 09, 2023, the management explained that in case of Clause 16.3(x) of dealership agreement, PSO was entitled to terminate the agreement in case of expired lease. It was an option / entitlement for the company and not obligatory to exercise the same, and this was utilized as and when necessary. Further, there were approx. 300 Shop-Stops all over Pakistan. The process for renewal of these agreements had already been initiated and was expected to be completed by 30<sup>th</sup> June, 2023 and necessary instructions had been issued to expedite the process. However, rent under these agreements was fully recovered and there was no loss to PSO.

The DAC directed the management to examine the matter on case to case basis and get the clarification from Law Division for non-renewal of expired leases and directed the management to complete the process of renewal of expired agreements of Shop Stops at the earliest.

Audit recommends to implement the decision of DAC.

[DP Nos. 2209, 2210, 2218 & 2129]

## **Others**

### ***2.4.4.12 Stuck-up recovery cases with courts – Rs 2,772.140 million***

According to Clause 5 of 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 PSO for the FY 2021-22, it was observed that 33 recovery suits were pending at different courts involving Rs 2,772.140 million from the years 1992 to 2022. The management engaged 17 legal counsels / lawyers to pursue these cases and paid an amount of Rs 7.390 million on account of legal fee. Further, it was noticed that in some cases, the Honourable Courts had awarded decrees in favour of PSO but the management did not complete legal proceedings against the defaulters to execute the decreed amount. As a

result the proceedings could not be preceded further, because the company failed to trace the details of assets and properties of the company. This resulted in stuck up of amount with court of Rs 2,772.140 million.

Audit was of the view that due to negligence of the management, the cases of recovery suit and decreed cases of Rs 2,772.140 million stuck up in courts.

The matter was reported to the management in October, 2022. In DAC meeting held on January 09, 2023, the management explained that out of Rs 2,772.140 million an amount of Rs 702 million relate to cases which were filed against PSO for recovery or cases between 3<sup>rd</sup> parties. Whereas Rs 2 million had already been recovered. Remaining amount of Rs 2,067.700 million pertained to cases filed by PSO for recovery.

The DAC directed the management to share the case wise detail with Audit and pursue the court cases vigorously.

Audit recommends to implement the decision of DAC.

[DP No. 1974]

## 2.5 Sui Northern Gas Pipelines Limited

### 2.5.1(A) 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 57.96%. SNGPL is Pakistan's largest gas company serving more than 7.22 million consumers in northern and central Pakistan through an extensive network of pipeline (152,014 KMs) in Punjab, Khyber Pakhtunkhwa and Azad Jammu & Kashmir.

### 2.5.1(B) Comments on Company Performance

(Rs in million)					
Details	2021	2020	2,019	2,018	2,017
Sales	644,504	618,527	684,625	446,765	319,696
Add / (Less): Tariff adjustment / GDS	113,123	126,027	69,912	57,016	26,612
Net Sales	757,627	744,555	754,538	503,782	346,308
Cost of gas sold	704,775	690,218	718,742	476,785	326,610
Gross Profit	52,852	54,336	35,796	26,996	19,699
Other operating income	19,513	19,163	18,512	14,159	10,993
Operating expense	15,684	13,547	12,833	12,248	12,072
Finance Cost	40,037	48,975	25,776	10,806	5,350
Other Charges	802	707	3,043	2,626	729.719
Profit / (Loss) before taxation	15,842	8,416	11,149	15,475	12,539
Dividend %	40.00	40.00	35.00	70.50	60.00
No. of employees	8,709	8,872	8,881	9,061	9,184
Consumers in Numbers	7,330,880	7,043,147	6,727,073	6,296,662	5,691,743
T&D Network in KM)	152,173	145,476	139,054	131,192	119,652

(Source: Annual Audited Account)

The accumulation of huge receivables / payables especially against RLNG, pendency of legal cases, unabated UFG losses, non-finalization of GSPA for RLNG with GPPs / IPPs are major impediments for the management of

SNGPL. The demand and supply gap also pose a major challenge for smooth operations of the company.

## 2.5.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 243,823.349 million were raised in this report during the current audit of SNGPL. This also includes recoverable amount of Rs 118,267.975 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

### Overview of Audit Observations

(Rs in million)		
Sr. No.	Classification	Amount
1	Irregularities	
A	UFG Losses	9,073.552
B	Receivables Management	85,348.590
C	Project Management	20,622.804
D	Misuse of Subsidy on RLNG supplied to Export Sector	32,324.505
E	Regulatory Affairs	35,299.000
F	Sales Related Issues	51,982.000
G	Company Secretary / Board Related Issues	14.000
H	Procurement Related Irregularities	513.037
I	HR / Employee Related Irregularities	10.000
2	Others	8,635.861

## 2.5.3 Compliance of PAC Directives

Audit Year	Total Paras	Full compliance	Partial compliance	%age of compliance
1991-92	15	09	06	60
1992-93	16	15	01	94
1993-94	12	10	02	83
1995-96	10	08	02	80
1996-97	16	15	01	94
1998-99	10	09	01	90
2000-01	20	15	05	75
2001-02	09	06	03	67
2003-04	07	06	01	86
2006-07	12	10	02	83
2007-08	18	15	03	83
2008-09	22	20	02	91
2009-10	11	10	1	92
2010-11	45	39	06	87
2011-12	25	16	09	64
2012-13	10	05	05	50

2013-14	17	14	03	82
2014-15	10	1	10	10
2015-16	16	08	08	50
2016-17	39	31	08	79
2017-18	15	08	07	53
2018-19	13	03	10	23
2019-20	14	07	07	50
<b>Total</b>	<b>382</b>	<b>280</b>	<b>103</b>	<b>73%</b>

Overall compliance of PAC directives was not satisfactory which needs immediate attention of the Principal Accounting Officer.

## **2.5.3 Audit Paras**

### **UFG Losses**

#### ***2.5.4.1 Loss due to loose control over SMS – Rs 8,241.140 million***

According to Clause 09 of UFG Manual, it is responsibility of UFG Control Department to identify the grey areas on the basis of monthly gas sales reconciliation reports SMS / regions-wise. Areas with high % age loss should be focused to have proper control over UFG losses. Further, according to Clause 21.1 of the License of SNGPL issued by OGRA, the licensee shall take all possible steps to keep the UFG within acceptable limits, which was 6.982% in DFRR 2020-21.

During audit of SNGPL for the FY 2021-22, it was observed that the management failed to control the UFG losses relating to 38 SMSs having UFG ranging from 9 % to 100 % and suffered a loss of 15,217.97 MMCF equivalent to Rs 8,241.14 million due to extraordinary UFG on these SMSs. The high UFG losses at 8.60% (33148 MMCF) against the benchmark of 6.982% (26912 MMCF) further, reduced the profitability of the company due the reason it was disallowed by the OGRA. The management neither took concrete measures nor did special vigilance on these SMSs to reduce the UFG losses to bring them within the allowable limits of OGRA. This resulted in loss of Rs 8,241.140 million on account of UFG on 38 SMSs.

Audit was of the view that ineffective implementation of UFG reduction plan resulted in UFG losses of Rs 8,241.14 million. Similar nature paras were also pointed out in audit reports 2021-22 [Para No. 2.5.4.5] of Rs 13,657.150 million, 2020-21 [Para No. 2.5.6.2] of Rs 10.698 million, 2019-20 [Para No. 2.5.6.15] of Rs 16,302.596 million and 2018-19 [Para No. 2.5.4.6] of Rs 10,445.485 million.

The matter was reported to the management in November, 2022. In DAC meeting held on January 05, 2023, the management explained that out of 38 SMSs, 15 SMSs pertains to areas, where law and order situation was worse. Remaining SMSs were dominantly domestic sale SMSs supplying gas to major Cities. Due to continuous efforts of the management losses were decreased significantly for the last two years. Further, as a result of company's efforts trend

of gas losses had reduced to 8.60% in FY 2020-21, which was lowest during last four years as determined by OGRA.

The DAC directed the management to submit comprehensive report regarding addition of SMSs, bifurcation of looped SMSs, segmentation / replacement of network. The DAC further directed to continue efforts for improvement in the system. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP Nos. 2169 & 2170]

#### ***2.5.4.2 Loss of revenue due to weak vigilance - Rs 448.190 million***

According to Clause D-3 of Procedure for dealing with the theft of gas cases issued by OGRA vide its letter 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 illegal restoration of gas supply. According to Clause 18.14 of Billing Manual, to avoid any possibility of pilferage of gas, CMS and other accessories installed at the premises of disconnected consumers shall invariably be removed immediately after three months of disconnection of gas supply. Fortnightly inspection of such consumer's premises may also be undertaken specially of disconnected industrial and commercial consumers.

During audit of SNGPL for the FY 2020-21, it was observed that management of SNGPL imposed gas pilferage charges in 02 cases amounting to Rs 448.19 million according to OGRA policy. The detail is as under:

- i. Management replaced meter on February 18, 2022 in respect of M/s Union Gas CNG Station, Chakwal which was involved in meter tempering by replacing original magnet and flow wheel to secure unregistered gas. EVC display installed at meter was off and logs were missing from June 08, 2015 till date of meter replacement. Resultantly, management imposed gas pilferage charges of Rs 43.181 million for 365 days according to OGRA policy. Audit held that due to weak vigilance and inadequate and faulty procedure of OGRA, company had to sustain loss during the period from June 08, 2015 to February 18, 2022 (07

years) resulted in actual theft volume of gas 72,189.11 HM<sup>3</sup> (10,312.73 HM<sup>3</sup> x 07) which was not booked resulting in loss of revenue of Rs 302.273 million.

- ii. In other case, management failed to detect any gas load at the premises of M/s A-One CNG, Kasur having consumer No. 0390741000. However, consumer was using direct tapping by placing magnet below the meter front body/counter and operated the compressor to refill the gas in 270 Nos. cylinders. EVC data showed zero flow since December 12, 2021. Resultantly, head office Detection & Evaluation Committee calculated recoverable volume of 17,543.207 HM<sup>3</sup> amounting to Rs 145.917 million resulting in loss of Rs 145.917 million due to weak surveillance.

Audit was of the view that inefficiency of the management and inadequate / faulty procedure of OGRA resulted in loss of revenue of Rs 448.190 million. Similar nature paras were also pointed out in audit reports 2021-22 [Para No. 2.5.4.8] of Rs 350.356 million, 2020-21 [Para No. 2.5.6.3] of Rs 2,170.656 million and 2018-19 [Para No. 2.5.4.3] of Rs 5,866.762 million.

The matter was reported to the management in October, 2022. In DAC meeting held on January 05, 2023, the management explained that case was unearthed as a result of company's efforts and executives / staff also faced armed resistance as well as firing of bullets resulting in injury of one staff member. FIR had been lodged against the consumer. Further, the management apprised that Mandra-Chakwal road project of GOP re-routing of 8" Diameter gas supply main was carried out however the service line of the subject consumer was not shifted to the newly laid 8" diameter supply main at that time due to consumer's illegal activities, violent attitude and troublesome behaviour against government and company's policies.

The DAC directed the management to follow up the investigation process with law authorities and inform Audit about the latest status of the case. DAC further directed the management to conduct an internal inquiry in case of M/s Union Gas CNG Station, Chakwal and submit report to Audit within two months.

Audit recommends to implement the decision of DAC.

[DP Nos. 1950 & 2198]

#### ***2.5.4.3 Loss due to delayed action against gas theft cases – Rs 384.222 million***

According to Clause(e) of OGRA's letter dated August 16, 2005 regarding procedure for dealing with theft of gas cases, the direct tapping including self-reconnecting / connection cases shall be checked by company's vigilance team on receipt of any information, preferably in association with a magistrate or judicial officer and police / army / paramilitary personnel. Further, According to 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 illegal restoration of gas supply."

During audit of SNGPL for the FY 2021-22, it was observed that the management failed to control theft of gas valuing Rs 384.220 million in case of consumers and non-consumers as detailed below:

- i. In case of consumers, an amount of Rs 230.134 million was involved in gas theft cases through direct by pass / use / meter tampering and self-reconnection but neither recovery from these consumers was made nor were effective steps taken to stop pilferage of gas. Further, management failed to complete procedural formalities in theft cases such as disconnection, scrutiny from sales department, authorization from law department and filing of criminal suits by billing department etc. within stipulated period; and
- ii. In case of non-consumers, the management failed to control theft of huge volume of 218.30 MMCF gas valuing Rs 154.088 million. It was found that FIRs for theft cases from non-consumers were required to be pursued vigorously through criminal proceedings to mitigate this theft of gas.

Audit was of the view that due to weak network surveillance and defective mechanism to detect direct use / direct by pass well in time resulted in delayed detection of illegal gas connections and pilferage of gas and non-pursuance of criminal proceedings against non-consumers resulted in loss of Rs 384.222 million. Similar nature paras were also pointed out in audit reports 2021-22 [Para No. 2.5.4.6] of Rs 1,018.197 million and 2020-21 [Para No. 2.5.6.3] of Rs 2,170.774 million.

The matter was reported to the management in October, 2022. In DAC meeting held on January 05, 2023, the management explained that as a result of continuous efforts volumetric loss against non-consumer had significantly decreased from 3,355 MMCF in FY 2017-18 to 218 MMCF in FY 2021-22, showing reduction of 92%. Management further stated that amendment in the Gas Theft & Control Recovery Act, 2016 had been proposed regarding sealing of premises of the gas pilferers. Further, the management explained that out of total Rs 230.13 million, Rs 14.514 million had been recovered and verified from audit. Recovery suits had been initiated in different courts.

The DAC directed the management to get the stated stance verified by Audit within a week with respect to non-consumers. Further, DAC took serious view of the issue of non-pursuance of gas theft charges from various customers and directed the management to pursue the court cases vigorously and expedite the recovery of balance amount within one month. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP Nos. 1945 & 2176]

## **Receivables Management**

### ***2.5.4.4 Non-recovery of cost of RLNG from SSGC – Rs 47,524 million***

According to Sections 3 and 4(4) of Natural Gas Regulated Third Party Access (TPA) Rules, 2012 read with GTA executed between SNGPL and SSGC, transportation service consists of taking delivery of the gas available by a shipper at one or more entry points along the gas pipeline transportation system and delivering an equivalent quality of gas to shipper. Transporter shall arrange to deliver gas at exit point to shipper and shall provide facilities including measurement equipment at exit point.

During audit of SNGPL for the FY 2020-21, it was observed that the management could not receive RLNG of 124,397 BBTU worth Rs 279,536 million from June 01, 2020 to October, 2022 from SSGC which was due under Gas Transportation Agreement (GTA). SSGC was retaining RLNG, without intimating any demand to SNGPL, for sale in its own franchise area. As per receivable and payable statement provided vide email dated November 14, 2002, net recoverable from SSGC was Rs 47,524 million as of October, 2022 which

was due till date. Further, invoice wise due amount was not provided to Audit to ascertain the factual position. This resulted in non-recovery of cost of RLNG from SSGC amounting to Rs 47,524 million.

Audit was of the view that due to weak financial management resulted in non-recovery of Rs 47,524 million.

The matter was reported to the management in November, 2022. In DAC meeting held on January 05, 2023, the management explained that RLNG withheld by SSGC had been invoiced to SSGC according to decision of OGRA. SSGC had made payment of Rs 15,183 million. SNGPL was in continuous follow up of RLNG amount from SSGC.

The DAC reduced the para to the extent of recovered and verified amount and directed the management to take up the matter with SSGC for recovery of balance amount. No further progress was reported till finalization of the report.

Audit recommends to expedite recovery of RLNG cost from SSGC at the earliest.

[DP No. 2286]

#### ***2.5.4.5 Non-recovery of outstanding gas charges from consumers of Power Sector - Rs 23,322 million***

According to Clauses 3.13 & 3.14 of Billing Manual of SNGPL, timely / maximum recovery of gas dues shall be arranged from all categories of consumers. Special attention was to be paid to recover gas dues from big industrial and general industrial consumers which contribute the major share of sales revenue. Billing Department shall forward lists of industrial / bulk supply / special domestic defaulters to Distribution Department for disconnection purposes every month. According to Clause 3.17 of Billing Manual, security from disconnected consumers (all categories) should be deposited before re-connecting their gas supply.

During audit of SNGPL for the FY 2021-22, it was observed that the management failed to recover the outstanding amount of gas charges from the consumers of Power sector. This resulted in non-recovery of outstanding gas charges from consumers of Power Sector of Rs 23,322 million.

Audit was of the view that the companies of Power sector intentionally

hold the outstanding dues of SNGPL which needs to be seriously taken up by the management at higher level. Similar nature paras were also pointed out in audit reports 2021-22 [Para No. 2.5.6.19] of Rs 12,902.220 million and 2020-21 [Para No. 2.5.6.5] of Rs 54,532 million.

The matter was reported to the management in October, 2022. In DAC meeting held on January 05, 2023, the management explained that the matter was pertained to circular debt, however efforts were being made to recover the amount from Power sector.

The DAC directed the management to pursue the recovery vigorously within one month. No further progress was reported till finalization of the report.

Audit recommends that management needs to make effective efforts to recover the outstanding amount and take up the matter with Ministry of Energy Power / Petroleum Division.

[DP No. 2194]

***2.5.4.6 Non-recovery of outstanding gas charges and shortfall in security deposits from defaulters - Rs 13,749.590 million***

According to Clauses 13.1 & 13.2 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 and just after the expiry of due date, a disconnection notice be served advising to pay gas dues within a week. Further, according to Section 13 of the Gas Theft Act, 2016, any person aggrieved by any judgment, decree, sentence or final order passed by the Gas Utility Court may within 30 days of sentence or of such judgment, decree, sentence or final order prefer an appeal to the High Court. Furthermore, according to Clause 14.1.3(a) of SNGPL Billing Manual, the security deposits of all industrial and commercial consumers be checked to ensure that in no case this amount is less than their anticipated consumption for three months on the basis of latest available data

During audit of SNGPL for the FY 2021-22, it was observed that the management failed to recover gas charges amounting to Rs 9,221.658 million from 136 disconnected consumers and against whom recovery and declaratory cases had been decided in favour of the company by the Courts. Moreover, 36 cases of outstanding gas charges amounting to Rs 1,534.823 million were pending at different forum which was decreed against the company. Further, the

management also failed to enhance security deposits amounting to Rs 2,993.109 million against 336 consumers. The security deposit was subject to revision with changes in gas prices or average consumption. The management did not retain sufficient security deposits covering the gas charges of anticipated consumption due to which the outstanding amount could not be recovered from these consumers. This resulted in non-recovery of outstanding gas charges from industrial and commercial customers / defaulters of Rs 13,749.59 million.

Audit was of the view that due to negligence of the management, outstanding dues of Rs 13,749.590 million could not be recovered from the defaulters. Similar nature paras were also pointed out in audit reports 2021-22 [Para No. 2.5.4.13] of Rs 13,474.270 million, 2021-22 [Para No. 2.5.6.4] of Rs 86,146.550 million, 2019-20 [Para No. 2.5.6.16] of Rs 58,049.650 million and 2018-19 [Para No. 2.5.4.4] of Rs 18,252.320 million.

The matter was reported to the management in November, 2022. In DAC meeting held on January 05, 2023, the management explained that cases were presently pending before different Courts of Law which were being vigorously perused. Further, shortfall notices were being issued on regular basis. Most of the consumers had got restraining orders from Court against recovery of shortfall amount and action had been initiated against remaining consumers. Further, connections of industrial and commercial customers / defaulters had been disconnected and recovery suits had also been initiated.

The DAC showed serious concern on non-recovery of outstanding dues, and directed the management to share the complete detail of recoveries effected out of total court cases decided in the year 2022. DAC, further, directed the management to devise a mechanism for early recovery of shortfall amount and pursue the court cases vigorously. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP Nos. 1947, 1948, 2202 & 2203]

***2.5.4.7 Non-recovery from defaulters having more than one connection - Rs 753 million***

According to Clause 13.1 of SNGPL Billing Manual, it will be the responsibility of GM (Billing) to ensure collection of company's gas bills in

respect of all categories of consumers. Further, according to Clause 13.2 of *ibid*, 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 2021-22, it was observed that management of SNGPL failed to recover outstanding amount of Rs 753 million from 24 industrial consumers pending from 2011 onward. These industrial consumers had more than one gas connection in the same or other locations / regions with same GST number. It was worth mentioning that these consumers with same GST number were using gas through their active gas connections and were also defaulters of huge amounts of arrears against their other defaulted / disconnected premises. Audit holds that neither the company disconnected active consumer against their arrears of defaulted gas connection of the same and other premises nor the outstanding amount had been recovered / adjusted from the active gas connections through security amount. This resulted into loss of Rs 753 million to the company due to non-recovery of the outstanding amount from industrial consumers having more than one active / disconnected connection.

Audit was of the view that due to defective manual / GSAs and weak financial management, recovery / adjustment of outstanding dues / security deposits of active consumers having more than one connection could not be effected.

The matter was reported to the management in November, 2022. In DAC meeting held on January 03-05, 2023, the management explained that in all cases consumers had been disconnected and the recovery suits initiated against them. Management further explained that disconnection was process for adjacent premises. However, for non-adjacent premises approval from OGRA were not received.

The DAC directed the management to pursue the matter with OGRA vigorously and expedite the recovery within one month. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2204]

## **Project Management**

### **2.5.4.8 *Delay in completion of gas development work jobs within stipulated time - Rs 15,030.490 million***

According to budget instructions for the FYs 2020-21, read with Para 3.1 of the Project Manual of SNGPL, for carrying out capital and revenue jobs, the job holder will be responsible for the timely completion of jobs within the stipulated period and Land Section will arrange permissions / No Objection Certificates (NOCs) from outside agencies for pipeline crossings. Further, according to Para 13 of Cabinet Division's Development Wing Notification No. F.7(2) (Dev)/2016 dated October 10, 2016, the executing agencies shall ensure that the schemes are completed within the same year and within the approved cost.

During audit of SNGPL for the FY 2021-22, it was observed that 750 jobs having an estimated cost of Rs 24,903.490 million were in process. Out of 750 jobs 162 jobs could not be completed due to that either land section could not arrange NOC for ROW, pipeline crossings from outside agencies or unavailability of material. Remaining 588 jobs which were approved in the FY 2018-19 to 2020-21 under funding of the Government and company's own sources could not be completed these jobs due to moratorium imposed by Federal Government. Expenditure of Rs 4,042 million (having Rs 2,559 million government share and Rs 1,483 million company's own sources) had been incurred on these jobs. The delayed completion would cause not only cost overrun but also deprived the common households from the gas. This resulted in non-completion of jobs of Rs 10,988.490 million and blockage / wastage of funds of Rs 4,042 million aggregating to Rs 15,030.490 million.

Audit was of the view that due to poor project management, jobs were not completed within stipulated time. Similar nature paras were also pointed out in audit reports 2021-22 [Para No. 2.5.4.22] of Rs 18,383 million, 2020-21 [Para No. 2.5.6.10] of Rs 28,394 million, 2019-20 [Para No. 2.5.6.34] of Rs 18,639 million and 2018-19 [Para No. 2.5.4.7] of Rs 17,397 million.

The matter was reported to the management in September, 2022. In DAC meeting held on January 05, 2023, the management explained that 45% jobs had been completed while the remaining jobs where relaxation was applicable, will be completed till June 30, 2023. Further, land department was constantly

following the pending crossings matters from outside agencies like NHA, CDA, Railways and Irrigation in order for timely completion of subject jobs. In case of non-revalidation, management apprised that number of challenges were faced in completing these jobs including availability of material, NOC, litigation between stakeholders etc. Further, the management explained that the moratorium on gas supply schemes imposed in 2009 and 2020 in the wake of demand-supply gap, the same was relaxed in respect of domestic gas development schemes.

The DAC directed the management to provide the specific reasons for delay in 57 cases and completion status on case-to-case basis and expedite to complete the remaining jobs at the earliest. DAC further directed the management to conduct internal inquiry and submit the comprehensive report on incomplete development schemes for the last ten years. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides completion of jobs expeditiously.

[DP Nos. 1914, 1915, 1916 & 1917]

#### ***2.5.4.9 Cost escalation due to non-completion of augmentation / bifurcation of gas network - Rs 2,129.520 million***

According to Regulation 3 & 4(25) of SRO 396(I)/2019 dated February 27, 2019, all such licenses, carrying out regulated activity of transmission, distribution and sale of natural gas, shall comply with the Performance and Service Standards prescribed in these regulations which entails that the company shall maintain adequate pressure in transmission pipelines and distribution networks and upgrade system where necessary to ensure supply of contractual volume to its consumers at pressure agreed with them in their relevant agreements. According to Clause 1.2.1 (III) of Project Manual of SNGPL, Land Section is responsible for acquiring, leasing and other land related jobs for laying pipelines. Further, according to Clause 1.7 of *ibid*, Project Department may provide estimated cost based on historical data to the Transmission / P&D Department for estimating the budget requirements for laying new transmission pipeline or loop lines.

During audit of SNGPL for the FY 2021-22, it was observed that the management of SNGPL did not timely complete the projects of Augmentation /

Bifurcation of gas network of Lahore city & Wazirabad-Jalalpur Jattan and upgradation/ modification of Sales Meter Stations which was caused to cost escalation as detailed under:

- i. Project of Lahore city consisting of 02 phases was approved by BoD in its meeting held on October 31, 2018 as well as OGRA for total cost of Rs 5,787 million (Phase-I for Rs 3,424 million & Phase-II for Rs 2,363 million). Management prepared cost estimates of phase I & II in 2018 based on the prevalent exchange rate, material and land prices. Phase-I of the project was executed. However, Phase-II remained pending. Cost of project under Phase-II increased from earlier estimates of Rs 2,363 million to Rs 3,909 million. Therefore, a budget enhancement of Rs 1,546 million was required to complete phase-II of project. It was pertinent to mention that the management could have started work on phase-II of project like purchase of material and land and other allied work after initial approval of this project in 2018 to avoid cost escalation. This resulted in loss of Rs 1,546 million to the company due to late procurement;
- ii. Wazirabad-Jalalpur Jattan system augmentation project comprising of the two high-pressure transmission lines of i.e. 8" dia 20 km Chenab River to Jalalpur Jattan, 10 MMCFD SMS and 16" dia x 7 km Wazirabad-DS Chenab River Line in order to alleviate the low gas pressure issue. In this regard, project with budgeted cost of Rs 654.198 million was approved by the Board in its 507<sup>th</sup> meeting held on May 05, 2018 and approved by OGRA. However, project involving transmission lines i.e. 8" dia 20 km Chenab River to Jalalpur Jattan and 10 MMCFD SMS had been completed and commissioned on November 18, 2020 against the costing of Rs 354 million whereas other project involving transmission lines 16" dia x 7 km, only 5.8 km line pipe was laid against the costing of Rs 297.8 million. For the completion of pending works i.e. 16" dia x 1.2 km, enhancement in the budget of Rs 317 million was required against the approved budget, after enhancement in the budget, project cost of this line becomes Rs 971 million. It was mainly due to late procurement of material in March, 2020 whereas the project was approved in May, 2019, irrational increase in overhead /depreciation cost of Rs 133.07 million from the approved budgeted cost of Rs 11.90 million and procurement of

land of Rs 70.75 million was not timely completed. This resulted in loss of Rs 317 million to the company due to late procurement and irrational increase in overhead etc.; and

- iii. 12 jobs relating to the period from 2012-13 to 2021-22 were approved for upgradation / modification of Sales Meter Stations involving an estimated cost of Rs 266.52 million. However, these SMSs could not be installed as the Land section had not acquired the required land for this purpose. It was worth mentioning that most of these SMSs had been fabricated at project sites. The issue was also communicated by GM (Projects) to GM (Lands) vide its letter dated August 29, 2022 stating that only impediment in the installation of these SMSs was purchase of land. This showed that the purpose for which these jobs were approved to upgrade the supply of gas could not be achieved. This resulted in non-installation of SMSs due to pending purchase of land.

Audit was of the view that due to poor planning, the approved project was delayed and company had to suffer a loss of Rs 2,129.520 million hence, problems of end consumers regarding low pressure or non-availability of gas in winter season could not be addressed which was the core objective of the project.

The matter was reported to the management in October, 2022. In DAC meeting held on January 05, 2023, the management explained that two separate phases of the projects were approved by the competent authorities and Phase-II was made conditional on the successful completion of the phase-I. Accordingly, company completed phase-I within the time-line. Process of Phase-II had been started and the escalation was primarily attributed to rupee dollar parity and inflationary pressure. Further, Board of Director (BoD) approval for Enhancement of budget in approved Wazirabad - Jalalpur Jattan System Augmentation Project was obtained after the fact finding inquiry conducted by management. While approval of OGRA for the enhanced expenditures would be sought at FRR level as mentioned in recommendations of approved agenda. Moreover, the management explained that Lands Department was constantly following the pending purchase matters.

The DAC directed the management to provide completion report of phase-I, approvals of OGRA and BoD regarding escalation and to share the inquiry conducted by the management. DAC further directed the management to

conduct internal inquiry in respect of non-installation of SMSs and submit the report to Audit within one month. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP Nos. 1920, 2174 & 2196]

***2.5.4.10 Loss of Revenue due to non-injection of gas from new gas fields into SNGPL transmission system - Rs 1,442.175 million***

According to Prime Minister Office instructions vide letter No. 4(17)/DS(EA-I)/2022 dated June 13, 2022, Petroleum Division was directed to complete the project for laying of pipelines for the Bannu West X-I and Wali-X-I shall be completed within 04 months i.e., October 12, 2022.

During audit of SNGPL for the FY 2021-22, it was observed that the management of SNGPL failed to complete the project within a period of 4 months i.e. October 12, 2022 for laying of pipelines to connect newly discovered Bannu West-I and Wali gas fields with SNGPL transmission network. Thus, SNGPL was deprived from the revenue of Rs 1,442.175 million in only one month ( $70 \text{ MMCFD} \times 30 \text{ days} = 2,100 \text{ MMCF/PM}$ ,  $\times 1025 \text{ GCV} = 2,152,500 \text{ MMBTU}$   $\times \text{Rs } 670 \text{ gas price per MMBTU} = \text{Rs } 1,442,175,000 \text{ loss / month}$ ). This resulted in non-injection of gas of Rs 1,442.175 million from Bannu West-I and Wali-X-I gas fields into SNGPL transmission system.

Audit was of the view that due to poor planning, the approved projects were delayed and negligence of management causes company to suffer a loss of Rs 1,442.175 million per month and the problems for end-consumers regarding low pressure or non-availability of gas in winter season could not be addressed which was the core objective of the project.

The matter was reported to the management in October, 2022. In DAC meeting held on January 05, 2023, the management explained that out of 238 KM, 151 km of the subject project had been completed. Remaining 230 km was pending due to prevailing security issues.

The DAC directed the management to provide the relevant document in support of stated stance. No further progress was reported till finalization of the report.

Audit recommends to complete the project at the earliest to safeguard the company interest and also help in improving the supply of indigenous gas for end consumers.

[DP No. 2191]

***2.5.4.11 Irregular withdrawal of funds from Assignment Account for retention in company bank account - Rs 1,163 million***

According to Section 23 of Public Financial Management Act, 2019, the PAO shall submit a certificate to the Finance Division on half yearly basis that public money has not been transferred from Assignment Account to any other bank Account. Further, according to Clause 6(g) of Special Assignment Account Procedure dated April 28, 2021 and revised procedures of assignment account dated 27.12.2018, AGPR/AG/DAO will not endorse any cheque, under any circumstances, which are drawn in the name of project authorities or drawer/payer for lump sum transfer of funds from Fund/ Deposit Account to their commercial bank account(s) or deposit into any chest and as per clause 8(d), National Bank of Pakistan will ensure that money is not drawn from Assignment Account for deposit or transfer into any bank account maintained in the name of authorities of the public entity. Any such instance reported to the MoF will be dealt with strictly. Furthermore, Ministry of Finance vide letter No. F.No. 2(2) BR-II/2008-1098/17, dated 28.09.2017 had devised the following mechanism for withdrawal of funds from assignment accounts of gas infrastructure development companies:

- i. The withdrawal can be made for physical work undertaken or initiated by the executing companies;
- ii. The withdrawal can be made for material procured;
- iii. Claim will not be entertained for the advance payments to the contractors; and
- iv. Funds withdrawn against the GOP share of the gas development schemes will not be placed in profitable ventures.

During audit of SNGPL for the FY 2021-22, it was observed that SNGPL's Assignment Account No. 1018 maintained at National Bank of Pakistan, Main Branch, Lahore was credited amounting to Rs 1203 million under PSDP project for supply of gas / RLNG to Special Economic Zone (SEZ)-Rashakai. However, SNGPL violated the procedures for operation of assignment

account issued by finance division from time to time and amount of Rs 1163 million was transferred from assignment account to its commercial bank account. Although, the payments were to be made directly to contractors, vendors, suppliers, employees though crossed cheques of Assignment Account. Neither, PAO / AGPR / NBP ensure/monitor that money was drawn from Assignment Account in the name of authorities of the public entity i.e. SNGPL nor such instances were reported to the Ministry of Finance. SNGPL retained money into its commercial bank account to earn profit. As per transmission budget vs actual report dated August 23, 2022, management of SNGPL booked an amount of Rs 1,098 million on account of expenditure incurred against project of transmission line 16” dia x 29.2 km from Ismailkot to Rashakai-SEZ” which was commissioned on January 15, 2022. Thus, this resulted into violation of PFM Act and Special Accounts Procedure of Assignment Account and excess withdrawal of Rs 65 million from assignment account.

Audit was of the view that PD, AGPR Sub-Office, Lahore and National Bank of Pakistan gave undue favour to SNGPL for withdrawal of money out of Assignment Account in violation of prescribed procedure.

The matter was reported to the management in September, 2022. In DAC meeting held on January 05, 2023, the management explained that withdrawal had been made as per procedure for operation of the assignment account approved by Finance Division where relaxation of certain conditions was available to Sui companies. Further, the management explained that actual savings of Rs 27.722 million had been offered for surrendered on November 03, 2022.

Audit contended that Finance Division did not give any relaxation regarding transfer of public money into SNGPL commercial bank account from assignment account except procedures relaxation of reimbursement for Sui’s companies for material procurement.

The DAC directed the Petroleum Division to conduct fact finding inquiry and submit the report to Audit at the earliest and directed the management to provide the specific reasons for savings and finalize the surrendering process. No further progress was reported till finalization of this report.

Audit recommends to probe the matter besides fixing the responsibility to the quarters concerned.

[DP Nos. 1925 & 1941]

**2.5.4.12 Non-completion of process of mutation of land in favour of company and non-adjustment of advances - Rs 406.130 million**

According to Clause 3.2.1 of Project Manual of SNGPL, award is announced by the Land Acquisition Collector, a copy of which is sent to SNGPL for getting the amount adjusted against advances of relevant pipeline. After receiving award from Land Acquisition Collector, mutation in favour of company shall be carried out.

During audit of SNGPL for the FY 2021-22, it was observed that the management issued advances of Rs 406.130 million for the purchase of land. However, the management could not complete the process of mutation in favour of the company. This resulted in non-completion of process of mutation of land in favour of company and non-adjustment of advances of Rs 406.130 million.

Audit was of the view that due to slackness on the part of management, advances were neither adjusted nor mutated in favour of company. Similar nature paras were also pointed out in audit reports 2021-22 [Para No. 2.5.4.27] of Rs 337.492 million, 2020-21 [Para No. 2.5.6.14] of Rs 743.227 million and 2018-19 [Para No. 2.5.4.25] of Rs 302.150 million.

The matter was reported to the management in August, 2022. In DAC meeting held on January 05, 2023, the management explained that an amount of Rs 406.130 million was allocated for purchase/acquisition of land in different projects out of which Rs 124.028 million was awarded, however, awards of Rs 40.447 million was in process. Remaining amount would be adjusted soon.

The DAC directed the management to submit updated status of pending mutation to ascertain delay in mutation and adjustment of advances. No further progress was reported till finalization of this report.

Audit recommends to ensure adjustment of advances besides completing the process of mutation of land in favour of company.

[DP No. 1919]

**2.5.4.13 Loss to the Government due to illegal retention of public money in commercial bank - Rs 266 million**

According to Section 23 of Public Finance Management Act, 2019, no authority shall transfer public moneys for investment or deposit from

Government account including the Assignment Accounts to other bank account without prior approval from the Federal Government provided that the PAO shall submit a certificate to the Finance Division on half yearly basis that public money has not been transferred from Assignment Account to any other bank Account. Further, Ministry of Finance vide letter No. 2(2) BR-II/2008-1098/17, dated 28.09.2017 had devised the following mechanism for withdrawal of funds from assignment accounts of gas infrastructure development companies:

- i. The withdrawal can be made for physical work undertaken or initiated by the executing companies;
- ii. The withdrawal can be made for material procured;
- iii. Claim will not be entertained for the advance payments to the contractors; and
- iv. Funds withdrawn against the GOP share of the gas development schemes will not be placed in profitable ventures.

During audit of SNGPL for the FY 2021-22, it was observed that SNGPL has withdrawn the government share on account of development funds of Rs 4,543 million from assignment account for transfer into its commercial bank account. However, SNGPL only spent of Rs 2,055 million against the development schemes and the remaining balance of Rs 2,488 million on account of development funds was remained kept in the SNGPL commercial bank account(s). It was pertinent to mention that assignment account was part of consolidated fund and public money cannot be transferred into commercial bank account. Moreover, withdrawal from assignment could be made against material procurement and physical work and not for advance payment. In this way, SNGPL earned profit of Rs 266 million during the period 2009 to 2020 against the remaining unutilized balance of Rs 2,488 million which were kept by SNGPL in its commercial bank. Thus, this resulted into loss of Rs 266 million to the Government which was required to be deposited into Federal Treasury along with its principal amount.

Audit was of view that Petroleum Division / AGPR failed to ensure that public money from Assignment Account had not been transferred to the commercial bank account of the entity (SNGPL) and gave undue favour to SNGPL for doing this act.

The matter was reported to the management in October, 2022. In DAC meeting held on January 05, 2023, the management explained that the company had drawn the amount in-line with procedure for operation of assignment account for completion of gas development schemes. The para involved 312 jobs out of which 110 jobs involving Rs 1,185 million pertained to assignment account whereas the remaining 202 jobs involving to Rs 3,385 million pertain to other projects. Out of 110 jobs 13 jobs had been completed while the other remaining jobs were in process.

Audit contended that management violated the procedure for operation of assignment account as management withdrawn whole amount from assignment account and transferred into its commercial bank account at once despite the fact that amount could be withdrawn from assignment account against physical activity initiated / against material procurement.

The DAC directed the Petroleum Division to conduct fact finding inquiry and submit the report to Audit within three months. DAC further directed the management to ascertain the amount of interest if any and initiate the process of surrendering it to Federal Government. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1921]

***2.5.4.14 Wastage of funds due to non-utilization of 6” dia PE pipe - Rs 119 million***

According to Clause 7.1 of Procurement Manual, procurement of material can only be initiated by Purchase & Stores Department on receipt of a procurement request in the form of indent/Local Purchase Requisition (LPR) Further, according to Clause 68.8 of Procurement Manual, Polyethylene pipe and fittings should be stored under the shade.

During audit of SNGPL for the FY 2021-22, it was observed that management of SNGPL approved jobs in July 22, 2019 for replacement of 6” dia 52 km MS pipe with PE pipe at various localities (From Matiari to Lahore) against budgetary provisions of Rs 219 million. It was worth mentioning that job was started without ROW clearance/NOCs. As of September 16, 2022, only 10 km pipe line was laid which showed progress of 19.6% even after lapse of period

of more than 3 years. However, 51 km PE pipe of Rs 119 million was procured in January 04, 2021 for execution of above jobs and project camp was not able to draw the 6” dia PE pipe from the Manga store for laying of pipeline despite the intimation from GM (stores) that Polyethylene pipe was laying unused in stores could be damaged due to non-availability of proper storage. Hence, this resulted into blockage and wastage of funds of Rs 119 million due to unused 6” dia PE pipe and non-availability of cover sheds in stores.

Audit was of view that due to poor project management resulted not only in blockage of funds of Rs 119 million but also wastage of funds as the quality of pipe was compromised due to prolong exposure to sunlight/UV radiations. Further, company also had to tolerate its revenue in terms of non-claiming of ROA.

The matter was reported to the management in September, 2022. In DAC meeting held on January 05, 2023, the management explained that 36% laying against the subject project had been completed in 1.7 year despite delay in availability of requisite NOCs and isolation of network and regarding shifting of pipe from Manga Stores to sites.

The DAC directed the management to conduct internal inquiry to ascertain total 6-inch PE pipeline required, procured, issued, available on site and in stores along with status of its quality and share the report to Audit within one month. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1922]

**2.5.4.15 Loss due to charge of excess rate of coating cost and material - Rs 30.289 million**

According to Ministry of Finance letter No. F.No. 2(2) BR-II/2008-1098/17, dated September 28, 2017, the withdrawal of Assignment Account can be made for the physical work undertaken or initiated by the executing companies.

During audit of SNGPL for the FY 2021-22, it was observed that in 02 cases, management of SNGPL charged excess rate of coating cost and valve material to the Rashakai-SEZ project as detailed below:

- i. Coating cost of Rs 2,742.43 per meter was booked/charged to the Rashakai-SEZ project against 28,564 meter pipeline which was over and above of Rs 2,109.72 per meter coating cost which was claimed by SNGPL at the time of withdrawal out of Assignment Account on various dates. This resulted in loss of Rs 18.073 million to the national exchequer; and
- ii. Ball valve & plug valve were charged excess amount of Rs 12.216 million as compared to cost of said items which were procured by SNGPL from the available stock of material in the company dated June 15, 2020 for which SNGPL withdrawn Rs 50 million from Assignment Account. Thus, this resulted in loss of Rs 12.216 million to the national exchequer.

Audit was of view that weak project management resulted in loss of Rs 30.289 million to Government by charging excess expenditure to PSDP project.

The matter was reported to the management in October, 2022. In DAC meeting held on January 05, 2023, the management explained that coating cost @ Rs 2742.43 per meter calculated on average basis was charged to this project according to actual cost incurred on this project. Funds had been withdrawn from Government Treasury against the coating cost in three tranches after completion of coating activity of the respective trench. Further, in case of valve material, company had consistently applied the policy of moving average while charging of material cost to the project and the overall withdrawal against this project was aligned with the total cost incurred and no excess funds had been withdrawn over and above the cost of project on overall basis.

The DAC directed the management to share the SOPs / Manual and working of moving average with supporting documents in respect of coating cost. DAC, further, directed the management to provide the actual amount incurred / paid to vendors against valve material to arrive at actual cost instead of moving average cost, which was required to be reimbursed from the Assignment Account. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP Nos. 1927 & 1929]

#### ***2.5.4.16 Loss due to delay in completion of Gilgit LPG Plant - Rs 20 million***

According to Rule 29 of Liquefied Petroleum Gas (Production and Distribution) Rules, 2001, 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. Further according to Rule 9 of ibid, on expiry of a license it may, unless earlier revoked under Rule 10, be renewed from time to time for a period of fifteen years each time on payment of a nonrefundable fee as specified.

During audit of SNGPL for the FY 2021-22, it was observed that OGRA granted a license on June 28, 2019, for the construction of LPG Air-Mix Plant at Mouza Konodass, Gilgit, which was valid till June 27, 2021. The management was not able to complete the project despite spending an amount of Rs 847 million for construction of LPG air mix plant. Later on, OGRA in its decision dated March 10, 2022 granted an extension of two years, from June 28, 2019 to June 26, 2023 and imposed a penalty of Rs 0.5 million and a penalty of Rs 19.5 million due non-completion of project within scheduled time and violation of licensing conditions. OGRA also directed that the imposed penalty shall be borne by the SNGPL out of its own profits and the said amount shall neither be passed on to other consumers nor it shall be made part of the Annual Revenue Requirements. This showed that SNGPL sustained a loss of Rs 20 million due to delay in completion of Gilgit LPG Plant.

Audit was of the view that lethargic attitude of the management resulted in undue delay in completion of the project and loss to the SNGPL as well as escalation in cost of the project.

The matter was reported to the management in October, 2022. In DAC meeting held on January 05, 2023, the management explained that due to change of site, ban imposed by the Election Commission and Covid issues, the time constrain was not observed properly.

The DAC directed the management to expedite the completion process of LPG Plant. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 2195]

#### ***2.5.4.17 Non-recovery of excess cost from consumers on account of cost sharing jobs - Rs 16.200 million***

According to Para 9.2.2 of Accounting Manual of SNGPL, the duties and responsibilities of Area Accountant include arranging recovery from consumers after completion of cost sharing jobs.

During audit of SNGPL for the FY 2020-21, it was observed that the management failed to recover excess cost from consumers in 12 cost sharing jobs. These jobs having estimated cost of Rs 208.6 million were completed by incurring actual expenditure of Rs 224.8 million with excess expenditure of Rs 16.2 million. The excess cost was not recovered from consumers. This resulted in non-recovery of excess cost amounting to Rs 16.200 million from the consumers.

Audit was of the view that weak project / financial management resulted in non-recovery of excess cost of Rs 16.200 million from consumers.

The matter was reported to the management in September, 2022. In DAC meeting held on January 05, 2023, the management explained that an amount of Rs 4.6 million was over run based on consumer level / offer letter working. Company had approved a SOP for recovery of additional / excess charges before commissioning of 100% cost recovery jobs effective from its circulation dated 26.07.2022. The matter regarding recovery of difference amount for the Jobs 1, 6, 7 and 10, had already been taken-up with concerned quarters.

The DAC directed the management to get the stance verified from Audit and further directed to expedite the recovery within one month. No further progress was reported till finalization of this report.

Audit recommends to recover excess amount from the customers.

[DP No. 1928]

#### ***2.5.4.18 Non- observance of Mineral Gas Safety Rules***

According to Rule 25 of Mineral Gas safety Rules, all high-pressure pipe lines shall observe a safety distance of 50 feet from any protected works. Further, according to Clause 2.13 of Transmission Manual, all valve assemblies should be checked for their adequate cross connections. The location of valves should be such that it does not create operational obstacles or bottle necks.

During audit of SNGPL for FY 2021-22, it was observed that management of SNGPL hooked up 16” dia transmission line Ismailkot-Rashakai with existing valve assembly at C-10 Nowshera without observing the space constraints at C-10 repeater station at Nowshera and safety measures. However, this valve assembly was actually to be installed at downstream railway crossing, Nowshera. It was noteworthy that C10 station, which was a major installation of transmission Section-III and was adjoining the southern & northern districts of Khyber Pakhtunkhwa for supply of gas. It had already become congested due to office/residential building blocks within 50 feet area of high-pressure pipelines.

Audit was of the view that due to weak project management, repeater station C10, Nowshera had become extremely critical as approach/movement of heavy machinery in valve assembly area had become extremely hard to manage which was a serious operational threat. Further, human lives were also in danger which needed attention for an appropriate solution.

The matter was reported to the management in September, 2022. In DAC meeting held on January 05, 2023, the management explained that the pipeline was constructed in accordance international standard, which allowed laying of pipeline in densely populated area while ensuring the public safety under all possible conditions.

Audit contended that decision of the management by hooking up 16’ dia Ismailkot-Rashakai SEZ with existing valve assembly C-10 Nowshera was in violation of safety distance rules as approach/movement of heavy machinery in valve assembly area had become extremely hard to manage which was a serious operational threat. Further, human lives were also in danger which needed attention for appropriate solution.

The DAC directed the management to ensure the compliance of Mineral Gas Safety Rules. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1936]

#### ***2.5.4.19 Non-preparation of mandatory PC-II and PC-IV***

According to Para 1.53 of Manual of Development Projects 2010, issued by Planning Commission, PC-II is required for conducting surveys and feasibility studies, in respect of larger projects, intended to get full justification

for undertaking the project before large resources are tied up with them. Further, as per Para 3.3 of Manual *ibid*, a PC-II is prepared for undertaking a feasibility study in respect of a major project estimated to cost Rs 50 million or more. This is mandatory. The procedure for processing a PC-II is the same as for the PC-I. Furthermore, the Ministry of Planning & Commission vide letter No. 1(1)PW/PD/CMO/ Infra/1/PMIC dated March 25, 2020 directed that all projects costing 50 million to 500 million should be based on feasibility studies prepared by the professionals hired by the Ministries/Divisions/executing agencies for respective Project Management Unit / Planning Cell etc. According to Clause 6 of Manual-Projects 2021 issued by Planning Commission, the project is completed or closed when all the funds have been utilized and objectives achieved or abandoned for any reason. At this stage, the project must be closed formally, and reports prepared on its overall performance and results achieved using the PC-IV proforma

During audit of SNGPL for the FY 2021-22, it was observed that Petroleum Division (DG Gas) did not prepare PC-II of the project for “supply of 30 MMCFD Gas to Rashakai Special Economic Zone (SEZ) at KP costing Rs 1,203 million financed by Federal PSDP. However, PC-1 was approved by DDWP without consideration of feasibility study. As per Manual *ibid*, PC-II was mandatory for project costing Rs50 million to Rs 500 million and was required to be approved from DDWP before consideration of PC-1. In this case, DG (Gas)/PD did not conduct feasibility study and relied upon the base fuel gas i.e. expensive option of RLNG provision to SEZ instead of exploring more cheap indigenous alternative energy fuel. Further, project completion report on PC-IV and accounts of Rashakai-SEZ Project was not finalized despite the lapse of 09 months from the date of commissioning of transmission line and SMS cum CMS on January 15, 2022.

Audit was of the view that due to lethargic attitude of DG (Gas), industries in SEZ were deprived from cheap alternate energy fuel and forced to buy the expensive RLNG for their operations and due to poor project management resulted in non-finalization of accounts and non-preparation of PC-IV in the light of guidelines issued by Planning Commission.

The matter was reported to the management in September, 2022. In DAC meeting held on January 05, 2023, the management explained that PC-II was

discussed in detail by DDWP and all issues raised during DDWP were duly noted for compliance in future. Further, the management explained that PC-IV had been prepared and submitted to Petroleum Division in consultation with SEZ developer KPEZDMC.

The DAC directed the DG (Gas) to come up with reasons for non-preparation of PC-II. DAC, further, directed the management to pursue the matter with Planning Commission for early approval of PC-IV besides early finalization of accounts with respect to PSDP project. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP Nos. 1939 & 1942]

#### ***2.5.4.20 Non-finalization of GSA for supply of RLNG to KP EZDMC (SEZ-Rashakai)***

According to DDWP meeting dated December 26, 2019, held under the Chairmanship of Secretary, Petroleum Division, approval was granted for the project to supply 30 MMCFD gas at the doorstep to Rashakai SEZ costing Rs 1,203 million.

During audit of SNGPL for the FY 2021-22, it was observed that management of SNGPL commissioned transmission line 16” dia x 29.2 km from Ismailkot to Rashakai-SEZ” on January 15, 2022 under PSDP, however, gas supply was not started till date to SEZ-Rashakai. Factually, gas supply to SEZ-Rashakai was to be started in 1<sup>st</sup> year after completion of project i.e. February, 2022. On scrutiny of data, it was revealed that there were no gas sales and purchase agreement between SNGPL and KPEZDMC on a take or pay basis for supply of RLNG even after a lapse of 09 months after the completion of project. Audit held that proper implementation arrangement between the stakeholders should be firmed up for RLNG supply before the initiation of the project. It was pertinent to mention that GSA between stakeholders might not be finalized due to high cost of RLNG in the prevailing market. This showed that project funding cost of Rs 1,163 million could become sunk in the absence of GSA due to high cost of RLNG prevailing in the market.

Audit was of the view that weak project management resulted in non-finalization of gas sale and purchase agreement.

The matter was reported to the management in October, 2022. In DAC meeting held on January 05, 2023, the management explained that GSA was pending with KP EZDMC (SEZ-Rashakai) due to non-availability of license by KP EZDMC (SEZ-Rashakai) from OGRA. The case had also been taken up with Petroleum Division.

The DAC directed the management to pursue the matter and expedite finalization of GSA. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1943]

### **Misuse of Subsidy on RLNG Supplied to Export Sector**

#### ***2.5.4.21 Misuse of concessionary tariff of RLNG for non-export operations – Rs 21,519.460 million***

According to decision of the Economic Coordination Committee (ECC) of the Cabinet vide Case No. ECC-86/17/2018 dated September 17, 2018 and vide Case No. ECC-100/20/2018 dated October 16, 2018 that gas supply to the exporters of five zero-rated sectors, in the Punjab will be on weighted average gas tariff equal to US\$ 6.5 per MBTU. Pursuant to ECC's decision, Finance Division issued instructions vide U.O. No. 3(11)Oil/2018/31 dated January 18, 2019, that as the subsidy is a charge on the financial resources of the Government, payment on this account needs due care with regard to the targeted benefits intended from this expenditure. Petroleum Division should ensure implementation of additional SOPs while submitting cases for release of subsidy in future; SNGPL being the organization having operational out-reach to the gas consumer, conduct random inspection to eliminate "misuse/unauthorized use of subsidized gas" on non-export oriented operations. Moreover, Petroleum Division issued instructions to SNGPL vide DG (Gas) letter vide No. NG(I)-7(189)/21-Vol-II dated September 14, 2019 to prepare master data of EOUs including FBR authentication of EOUs data and banking information. In addition to this, ECC vide Case No. ECC-387/48/2020 dated October 19, 2020 approved the Procedure for Registration under Concessionary regime with the direction that concessionary regime shall apply only to actual exporters of five Export Oriented Sectors. In this regard, Ministry of Commerce shall devise a

comprehensive mechanism to identify actual beneficiaries in consultation with FBR and other relevant stakeholders.

During special study on “Supply of RLNG to exports sectors on concessionary rates” for the FYs 2018-19 to 2021-22, it was observed that SNGPL management supplied blend of indigenous gas & RLNG (50:50) during nine months and RLNG to EOUs on concessionary tariff (at US\$ 6.5/MMBTU) was supplied throughout the year. According to exports data provided by FBR, 277 EOUs did not make any exports but availed subsidy of Rs 16,572.520 million and used subsidized RLNG (28,986,378 MMBTU) for non-export operations. Moreover, 29 other EOUs made exports (Rs 721.165 million) less than the amount of subsidy availed (Rs 5,668.109 million) by them, resultantly subsidy of Rs 4,946.94 million was availed in excess meaning thereby used subsidized RLNG (9,088,503 MMBTU) for non-export operations and aggregate misuse of subsidized RLNG came to Rs 21,519.460 million.

But SNGPL did not comply with the instructions of Finance / Petroleum Divisions for authentication of exports and did not prepare any master data for EOUs regarding authentication of exports made by them and banking information on the plea that consumers were reluctant to provide the requisite information regarding FBR authentication and banking information. Petroleum Division / DG Gas issued further instructions vide NG.(I)-7(189)/21-Vol-III dated November 30, 2021 in order to implement the decision of Federal Cabinet (Case No. 1075/37/2021 dated November 09, 2021), whereby SNGPL was to take measures like proper verification of record at regional and head office level before processing of subsidy claims but the same was not done.

Audit was of the view that due to non-compliance of instructions of Finance / Petroleum Division regarding authentication of exports by SNGPL, subsidized RLNG was misused by EOUs and intended benefits of the subsidy paid from the national exchequer could not be achieved to the extent of Rs 21,519.46 million.

The matter was reported to the PAO / management in January, 2023. The management stated in its reply that in line with the mechanism / SOP for concessionary tariff devised by FBR vide letter No. C. No. 1(1) ST-LP&E/ZR/2017/243658-R dated December 30, 2020, the DISCOs / Gas Companies shall ensure that the taxpayers were active on FBR's (Sales Tax)

Active Taxpayers List (ATL) as shared with DISCOs / Gas Companies each month before generating the monthly utility bill. Therefore, the instructions of Finance / Petroleum Division regarding authentication of exports from FBR and realization of export proceed (foreign exchange) from SBP doesn't fall within the purview of SNGPL. Audit contended that SOP notified by FBR was only for enrolment / registration of EOUs for admissibility of subsidy whereas Finance / Petroleum Divisions issued SoPs / Instructions for monitoring of EOUs to prevent misuse of subsidy for non-export oriented operations which were not complied with by SNGPL and DG (Gas) at the time of release of funds to SNGPL.

Audit recommends to probe the matter for fixing of responsibility for non-implementation of Finance / Petroleum Divisions' instructions / SOPs besides initiating recovery proceedings against the EOUs availing subsidy without making any exports.

[DP Nos. 2317 & 2318]

***2.5.4.22 Grant of excess subsidy due to supply of extra gas than that of approved contractual load - Rs 10,805.045 million***

According to Procedure for supply of Gas / RLNG to Industrial Sector (Exporters of Five Zero-rated Sectors) finalized by Finance Division vide CF-Wing office memorandum F.No. 4(7)CF(V)2016 November, 2, 2018 read with SNGPL Sales Manual (Paras 51 to 61), the subsidy will be given by GoP in accordance with budgetary allocations for the CFY based on RLNG supply to EOUs according to contractual load / Gas Sales Agreements. According to clause 24(d) of GSA executed with EOUs, this contract shall be subject to cancellation by the Company at any time for any action by the consumer to secure through meter gas for other purpose, tending to secure more gas than the meter registers or to secure said gas through said meter at higher pressure than that at which the regulators are set by the Company, or any alternation, addition / extension to the existing gas installation carried out by the Consumer without obtaining prior approval of the Company in writing.

During course of special study on "Supply of RLNG to exports sectors on concessionary rates" for the FYs 2018-19 to 2021-22, it was observed that SNGPL allocated RLNG to each EOU with the prior approval of DG (Gas)

through Gas Sales Agreements for specific contractual load and load survey forms were attached to respective GSAs showing contractual loads and appliances installed by the EOUs having capacity duly commensurate with the contractual loads. But 128 EOUs enhanced their connected loads by installing appliances of higher capacity and SNGPL inspection teams detected these unauthorized load enhancements through monthly inspections. SNGPL regional offices issued warning letters to EOUs involved in unauthorized load enhancement, resultantly EOUs applied for enhancement in contractual loads but such cases of load enhancements were not finalized by the regional offices of SNGPL due to non-fulfilment of codal formalities by the EOUs. Meanwhile, excess RLNG on concessionary tariff was continued to be supplied to 128 industrial consumers to the extent of 10,560,451 MMBTU and undue benefit of subsidized RLNG amounting to Rs 10,805.045 million was extended.

Audit was of the view that due to failure of SNGPL management in supplying RLNG according to approved contractual loads / GSAs, rather taking punitive action against EOUs violating provisions of GSAs, undue benefit was extended to EOUs by supplying excess RLNG involving subsidy of Rs 10,805.045 million which caused extra burden on national exchequer.

The matter was reported to the PAO / management in January, 2023. Management stated in its reply that subsidy was provided to each zero-rated consumer per its contractual load and the excess consumption was always billed on the OGRA notified tariff for RLNG / system gas. Audit contended that 128 EOUs availed supply of gas in excess of their approved contractual load and system gas (50% blend) was supplied equal to their contractual load whereas subsidy on RLNG was allowed on actual consumption which was more than approved contractual load. Some consumers applied for enhancement in contractual load but SNGPL did not approve their request due to non-fulfilment of codal formalities i.e. deposit of additional security. Resultantly, SNGPL allowed excess subsidy to consumers and availed excess funds from the Government.

Audit recommends to probe the matter for fixing of responsibility for extending benefit of subsidized RLNG on unauthorized enhanced load besides initiating recovery proceedings against the EOUs availing excess subsidy.

[DP No. 2316]

## **Regulatory Affairs**

### ***2.5.4.23 Overstatement of differential margin receivable from the FG – Rs 33,062 million***

According to Section 225 of the Company's Act, 2017, the financial statements shall give a true and fair view of the state of affairs of the company, comply with the financial reporting standards notified by the SECP. Further, according to Section 8 of OGRA Ordinance, 2002 read with Rule 18 of NGT Rules, 2002, the Authority shall determine yearly revenue requirement of the licensees for natural gas engaged in transmission, distribution and the sale of natural gas to a retail consumer.

During audit of SNGPL for the FY 2021-22, it was observed that in the audited Annual Accounts for the FY 2020-21, the company recognized revenue of Rs 113,123 million on account of differential margin receivable from the FG against indigenous gas & RLNG. Out of this amount, Rs 28,611 million were booked on account of LPS payable to E&P companies and Rs 4,451 million were booked on account of expenses e.g., Rs 2,698 million, Rs 289, and Rs 1,464 million was booked against cost of supply, gas internally consumed and LPS respectively which were disallowed by OGRA. However, these expenses neither formed part of final revenue requirement of SNGPL nor were declared as receivable from the Federal Government by OGRA. This resulted in overstatement of revenue on account of differential margin by Rs 33,062 million thus showing profit of Rs 10,986 million in company accounts.

Audit was of the view that weak financial controls resulted in overstatement of differential margin amounting to Rs 33,062 million.

The matter was reported to the management in January, 2022. The management in its reply dated January, 2023 stated that an amount of Rs 28 billion represented LPS payable to gas producers on payment basis which was part of circular debt. The company had recognized this amount on accrual basis and believed that the settlement of this amount was part of circular debt. The company had taken up the matter with OGRA and was confident of the favourable decision.

Audit recommends to probe the matter besides taking remedial measures for rectification.

[DP No. 2320]

**2.5.4.24 Excess expenditure under various heads in violation of OGRA's directive – Rs 2,237 million**

According to Rule 17(h) of NGT Rules read with 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 SNGPL for the FY 2021-22, it was observed that OGRA DFRR 2020-21 approved certain amounts under different heads. However, the management of SNGPL incurred excess expenditure than allowed by OGRA. This resulted in unjustified expenditure of Rs 2,237 million as detailed below:

(Rs in million)			
Head of account	Actual Expense	Approved	Excess
Fuel & Power including GIC	6,772	4781	1991
Rent Rates Electricity	349	299	50
HR cost	18,101	17,929	172
Const equipment operating cost	170	146	24
<b>Total</b>	<b>25,392</b>	<b>23,155</b>	<b>2,237</b>

Audit was of the view that weak financial controls resulted in excess expenditure of Rs 2,237 million. Along with UFGs, such expenses would further erode the profit / dividend of the shareholders. Similar nature paras were pointed out in audit reports 2020-21 [Para No. 2.5.6.19] of Rs 5,241 million and 2019-20 [Para No. 2.5.6.46] of Rs 1,694 million.

The matter was reported to the PAO / management on January 12, 2021. In DAC meeting held on January 05, 2023, the management explained that the main component was gas internal consumption 1991 million which had been differed by OGRA. The Board of Directors of the Company was competent to determine the expenditures necessary for the smooth and efficient operations of the Company, the Board was fully cognizant of the legitimate expenditures of the company and had duly approved the same in the Board meetings.

The DAC directed the management to rationalize the expenses to remain within allowable limits of OGRA. DAC further directed the management to pursue the matter with OGRA for GIC relating to SSGC. No further progress was reported till finalization of this report.

Audit recommends to rationalize the expenses under above mentioned heads of accounts.

[DP No. 2205]

## **Sales Related Issues**

### ***2.5.4.25 Overstated claim of differential amount of RLNG diverted to domestic sector - Rs 33,797 million***

According to ECC decision dated November 27, 2018, SNGPL was allowed to inject RLNG volumes for consumption by domestic and commercial consumers. Further, according to Para (ii) of ECC decision dated May 25, 2018, SNGPL and SSGC be allowed to manage gas loads on their system through RLNG-System gas swap mechanism for which necessary provision of volumetric adjustment and financial impact may be made on cost neutral basis in the Sales Price of RLNG on a multi-year and ongoing basis through setting up of a deferral account by SNGPL. Further, according to ECC decision dated January 28, 2016, RLNG pricing will be ring fenced and all directly attributable costs will be charged / recovered from the RLNG consumers without affecting the consumers relying on domestically produced gas.

During audit of SNGPL for the FY 2021-22, it was observed that according to EEC decision, SNGPL was diverting the RLNG volumes to domestic and commercial in winter season and indigenous gas was diverted to RLNG consumers in summer season. SNGPL claimed differential amount of Rs 33,797 million for diversion during July, 2021 to June, 2022.

SNGPL adjusted 457 MMCF (480,041 mmbtu) indigenous gas diverted to RLNG consumers but it did not take into account the indigenous gas diverted as Energy Equivalence (14,645 MMCF equal to 15,377,275 mmbtu) to RLNG consumers to make up the deficient energy content of RLNG segment. Hence, SNGPL actually diverted 15,102 MMCF (15,857,316 mmbtu) to RLNG consumers and understated the claim payable of Rs 33,797 million by taking 480,041 mmbtu instead of 15,857,396 mmbtu to indigenous gas segment / Federal Government. In addition to this, SNGPL made diversion of RLNG without any measurement of RLNG diverted to consumers, without issuing any bill to consumers for RLNG diverted / differential amount. Further, SNGPL did not provide the bifurcation of diversion volumes to domestic and commercial sectors.

Audit was of the view that due to absence of any measurement of RLNG diverted to domestic sector and no bill for differential amount issued to any consumer, the claim was overstated by including the volume of energy equivalence and taking less volume in diversion to RLNG consumers.

The matter was reported to the management in November, 2022. In DAC meeting held on January 05, 2023, the management explained that GCV of RLNG was higher than that of indigenous gas. Therefore, to balance out the input and output of RLNG, some additional volumetric units had to be provided to RLNG segment. Further, RLNG diversion reconciliation was carried out in MMBTU. Therefore, inclusion of volumetric energy equivalence volume was not relevant.

Audit contended that SNGPL made diversion of RLNG without any measurement of RLNG diverted to consumers, without issuing any bill to consumers for RLNG diverted / differential amount, the claim was overstated by not including the volume of energy equivalence in supply of system gas to RLNG consumers in summer months during the year.

The DAC directed the management to provide reconciliation of indigenous gas and RLNG in volume MMCF and in Energy content MMBTU as well as the sales data relating to domestic and commercial consumer having consumption of above 5 MMBTU for the month of January, 2022. DAC further directed to provide average BTU of comingled gases and those of RLNG and indigenous gas separately. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC besides authentication of SNGPL claim by Petroleum Division with billing data before release of funds on this account.

[DP Nos. 2200 & 2201]

***2.5.4.26 Inadmissible diversion of RLNG to domestic sector in summer months – Rs 16,217 million***

According to Clause 3.1 of Natural Gas Allocation and Management Policy, 2005, gas supply to consumer in the Domestic Sector will be as per yearly target determined by the Federal Government. Gas supply to industries will be for nine months. Federal Government announces Winter Load Management and Gas Curtailment Schedule in the month of November /

December every year for 03 winter months. According to Winter Load Management as per decision of the Cabinet for the FY 2020-21, gas / RLNG supply of CNG sector on SNGPL's network has been suspended w.e.f December 06, 2021 till further orders. Gas / RLNG supply of Captive Power units was suspended till further orders, in line with the decision of the Cabinet on Winter Load Management.

During audit of SNGPL for the FY 2021-22, it was observed that SNGPL diverted RLNG (7,303,278 mmbtu) to domestic consumers during the months of July, August, September, October, March, May and June, 2022. For supply of indigenous gas first priority was to be given to domestic sector and RLNG was required to be diverted only in case of higher demand than available for supply. Further, during the month of March every year temperature raises and extra gas demand for heating water and the environment reduces. SNGPL claimed the differential amount of Rs 16,217 million approximate on account of diversion of RLNG in summer months in the overall claim lodged with Federal Government / OGRA.

Audit was of the view that Winter Load Management was meant for the months of December to February each year and diversion of RLNG in other months did not come under the ambit of Winter Load Management policy and required specific approval of the competent authority.

The matter was reported to the management in November, 2022. In DAC meeting held on January 05, 2023, the management explained that according to GOP directions, SNGPL was obligated to supply blend of system gas and RLNG to 5 export oriented industrial sectors. This resulted in shortfall of system gas supplies to gas consumers. RLNG was being diverted as system gas during 7 to 8 months a year.

Audit contended that according to Clause 3.1 of Natural Gas Allocation and Management Policy 2005 read with ECC decision September 17, 2018 approved gas supply priority order gave first priority to domestic and commercial consumers and zero-rated export industry was given second priority. Further, differential cost of RLNG sold to industrial sector was not supposed to be recovered from the Federal Government, because it was subject to volumetric swap and gas banking mechanism under deferral account according to ECC decision dated May 25, 2018.

The DAC directed the management to provide sales data for the month of May, 2022 to ascertain that RLNG was sold as system gas to industrial sector and not diverted to domestic sector. No further progress was reported till finalization of this report.

Audit recommends to provide specific approval of the competent authority otherwise reduce the claim against RLNG differential amount besides providing sales data for the month of May, 2022.

[DP No. 2168]

**2.5.4.27 Excess supply of indigenous gas to CNG & Industrial sectors in violation of gas priority order – Rs 1,968 million**

According to Clause 3.1 of Natural Gas Allocation and Management Policy, 2005 read with EEC in its meeting dated November 27, 2018, approved revision in the gas supply priority order as under:

Sectors	Revision in Priority Order
Domestic & Commercial	First
Power Sector-Zero Rated Industry	Second
General Industry, Fertilizer & Captive Power	Third
Cement including its captive power	Fourth
CNG	Fifth

During audit of SNGPL for the FY 2021-22, it was observed that SNGPL made gas curtailment to manage shortfall of gas during winter seasons in CNG sector and in general industry for the months of December, January & February. However, SNGPL did not implement curtailment schedule approved by the Federal Government under Winter Load Management and supplied gas of 1,821,962 mmbtu of Rs 1,968 million to CNG & general industry without implementing priority orders during winter seasons. Resultantly, more RLNG (43,705,733 mmbtu) was injected to manage the shortfall of domestic and accordingly huge differential cost was accumulated during the financial year. Diversion of RLNG could be reduced by observing the priority orders announced by the Federal Government.

Audit was of the view that SNGPL was not implementing the Winter Load Management and Curtailment Schedules in letter and spirit as depicted from above table. Resultantly, savings of indigenous gas could not be achieved and

more RLNG volume / energy was diverted which increased the claim of SNGPL against Federal Government.

The matter was reported to the management in November, 2022. In DAC meeting held on January 05, 2023, the management explained that SNGPL strictly followed winter load management plans approved by Federal Government and supply system gas to different categories of KP consumers to avoid violations of court order.

Audit contended that SNGPL supplied natural gas to CNG and general industries of Punjab in winter months which was in violation of winter load management.

The DAC directed the management to provide billing details of identified CNG Stations to ascertain the sale of indigenous gas in violation of winter load management. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 2192]

#### **Company Secretary / Board Related Issues**

##### ***2.5.4.28 Exorbitant expenditure on Board fee / Directors' expenses - Rs 14 million***

According to Rule 17(h) of Natural Gas Tariff Rules read with 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. Further, 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 in claiming of expenses.

During audit of SNGPL for the FY 2021-22, it was observed that OGRA vide Para 8.31 of Determination of Final Revenue Requirement for FY 2020-21, the Authority allowed Rs 37 million under head of Board meeting & Directors'

expenses. However, SNGPL incurred expenditure of Rs 51 million on account of Board fee / Directors' expenses over and above Rs 37 million allowed by the OGRA. The increasing trend in Board meeting & Directors' expenses was mainly due to the reason that Boards' meeting was frequently being held outstation other than the company's registered Head Office in Lahore. Further, this aspect was also discussed in Board Finance & Procurement Committee in its 314<sup>th</sup> meeting wherein CFO clearly stated that the company had been bearing 5.4 times higher average cost of outstation meetings as compared to average cost of meetings held at Lahore Head Office. Further, Chairperson, BoD and Company Secretary, was required to oversee that due to frequent outstation meetings exorbitant expenditure on Board fee / Directors' expenses was being incurred. This resulted in exorbitant expenditure on Board fee / Directors' expense of Rs 14 million.

Audit was of the view that weak financial / Board management resulted in irrational expenditure of Rs 14 million.

The matter was reported to the management in November, 2022. The management in its reply dated January 12, 2023 stated that outstation Board meetings were mostly held in SNGPL's Islamabad office and the expenses incurred on such meetings were normally on lower side due to the fact that out of total 12 Directors, 7 Directors were from Islamabad, 1 from Peshawar, 1 from Karachi and only 3 from Lahore. Accordingly, by holding Board meetings in Islamabad, boarding / lodging and travelling costs were saved.

Audit contended that as the company head office was located at Lahore therefore, staff had move to Islamabad to brief the board on agenda being discussed and this cost also needed to be considered in case meetings were held at Islamabad. Further, itemized breakup of board expenses be provided.

The DAC meeting was not held on this para by Petroleum Division despite repeated requests.

Audit recommends to rationalize the expense on Board fee / Directors' expenses.

[DP No. 2222]

## **Procurement Related Irregularities**

### ***2.5.4.29 Blockage of funds due to excess procurement – Rs 368.737 million***

According to Clause 17.1 of SNGPL Stores Manual the Coordinator (PB&MC) will coordinate with the Indenters that minimum number of slow moving and non-moving items remain in the Company's inventory. Further according to Clause 17.1.1 the Store Manual, slow moving item mean, the item which was not issued for the last five years from the last issuance. Further, according to Clause 17.1.2 of ibid the non-moving items mean the items that have not been issued during the last five year from the date of procurement.

During audit of SNGPL, Lahore for the FY 2020-21, it was observed that the management was holding non-moving items worth Rs 184.843 million and slow-moving items valuing Rs 183.894 million in its stock. This showed that the Coordinator (PB&MC) failed to exercise proper inventory control so as to avoid accumulation of un-necessary purchase of material, which was not immediately required by the company. This resulted in blockage of funds amounting to Rs 368.737 million.

Audit was of the view that the poor inventory controls resulted in blockage of funds amounting to Rs 368.737 million

The matter was reported to the management on April 21, 2022. In DAC meeting held on January 05, 2023, the management explained that 368 million items were Rs 81 million had been utilized and or scrapped up to November 30, 2022. Items of Rs 152 million had been considered mandatory which were required to be kept in stock to ensure smooth and uninterrupted operational system. As regards remaining 37 million that were not usable and should be scrapped. The balance Rs 98 million would be submitted within one week.

The DAC directed the management to provide relevant documents for verification to Audit in support of stated stance within one week. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1836]

### ***2.5.4.30 Misappropriation of stores - Rs 99.170 million***

According to Chapter 21 of Stores Manual, 2016, objectives of stock-

taking is to verify the accuracy of stores records, all issuances, receipts and stock in hand is counted. If the physical & Bin Cards balances tally with Activity balances, it will be an indication that not only all the store documents have been posted but also posted in the correct code/folio. Number of discrepancies with reference to total number of items held in stock, is one of the important indicators in evaluating the performance of a Store.

During audit of SNGPL, Lahore for the FY 2020-21, it was observed that the management carried out physical stock check of 23 stores/location during the financial year. In 18 stores/location there was shortage of 93 indices valuing Rs 99.170 million. This showed the poor performance of stores department which resulted in variance of Rs 99.170 million.

Audit was of the view that weak inventory management resulted in discrepancies in stock valuing Rs 99.170 million.

The matter was reported to the management on April 21, 2022. In DAC meeting held on January 05, 2023, the management explained that departmental proceedings were initiated against the defaulters. Moreover, mechanism for stoppage of such Incidents in future had been devised.

The DAC directed the management to share the status of criminal / departmental proceedings and share the copy of FIRs and provide the explanation for excess variation. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1841]

#### ***2.5.4.31 Non-recovery of late delivery charges - Rs 45.130 million***

According to General Terms to the contract, if the materials, as given in the order not dispatched/delivered on time and according to stipulations in the contract, SNGPL shall be entitled to recover 1% of the total value of the contract price (for local supplier, total value of purchase order excluding GST) 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, Lahore for the FY 2020-21, it was observed that in four cases the shipment / delivery was made by the supplier with the delay

ranging from 05 to 21 weeks. However, the management did not recover late delivery charges from the suppliers. This resulted in non-recovery of late delivery charges amounting to Rs 45.130 million.

Audit was of the view that due to weak internal controls management failed to recover the late delivery charges valuing Rs 45.130 million.

The matter was reported to the management on April 21, 2022. In DAC meeting held on January 05, 2023, the management explained that delivery charges for USD 70,708.20 had been recovered from supplier. Moreover, no late charges were Admissible to the supplier as the deliveries were made in time.

The DAC reduced the para to the extent of recovered and verified amount and directed to expedite the recovery of balance amount within one month. No further progress was reported till finalization of this report.

Audit recommends to expedite the recovery of balance amount besides improving internal controls.

[DP No. 1839]

## **HR / Employee Related Irregularities**

### ***2.5.4.32 Non-finalization of recovery and disciplinary proceedings – Rs 10 million***

According to Para 110.3 of SNGPL HR Manual, the company encourages all disciplinary issues to be handled as soon as they come to notice. Where management undertakes disciplinary action, its intention is principally to ensure that breaches of the Policy in case of under-performance are handled in a fair and uniform manner and without unnecessary escalation. Moreover, Para 115.1.5 of ibid states that an enquiry officer will be required to complete the enquiry proceedings and submit report within 15 days but not later than 90 days except for valid reasons beyond control of Enquiry Officer.

During audit of SNGPL for the FY 2021-22, it was observed that management of SNGPL did not initiate process of recovery of Rs 10 million against employees who were held responsible in the light of the recommendation of the enquiry / fact finding report dated March 21, 2021 & March 30, 2022. In respect of disciplinary cases, management issued charge sheets to 177 employees of different cadres on account of disciplinary issues / installation of gas meters at wrong premises but no further action was taken against these employees.

Further, management of SNGPL did not consider the cases for accelerated promotion of three executives having ACMA qualifications, who were eligible for the promotion.

Audit was of the view that due to weak management controls resulted in non-recovery of Rs 10 million, non-finalization of disciplinary cases and non-consideration of promotion cases. Similar nature para was also pointed out in audit reports 2021-22 [Para No. 2.5.4.40].

The matter was reported to the management in November, 2022. In DAC meeting held on January 05, 2023, the management explained that after fact-finding inquiry findings, the matter was presently under consideration of the management for apportionment and recovery. Further, the management explained that out of 177 cases, 73 cases had been finalized following the due procedure. Remaining 104 cases were at different stages. The management also explained that promotion process was being initiated

The DAC directed the management to share the inquiry reports with Audit besides finalization of the recovery / disciplinary proceedings within three months and to expedite the promotion cases. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP Nos. 1949, 2177, 2178 & 2182]

## **Others**

### ***2.5.4.33 Pendency in disposal of legal cases - Rs 7,828.022 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, according to 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 2021-22, it was observed that 89 suits for recovery of gas charges of Rs 7,828.022 million had been filed against various gas consumers including declaratory cases which were pending in

different courts of law and Gas Utility Courts. These cases were required to be actively pursued in the courts of law so that the cases may be decided in favour of the company and the involved amount may be recovered at the earliest.

Audit was of the view that slack pursuance by Law Department in addition to company's panel of litigation cases resulted in pendency of legal cases in different courts of law and gas utility courts. Similar nature paras were also pointed out in audit reports 2021-22 [Para No. 2.5.4.30] of Rs 32,000 million, 2020-21 [Para No. 2.5.6.24] of Rs 23,641 million and 2019-20 [Para No. 2.5.6.54] of Rs 24,530 million.

The matter was reported to the management in October, 2022. In DAC meeting held in January, 2023, the management explained that cases were presently pending before different Courts of Law.

The DAC directed the management to share the complete details of court cases with Audit and pursue the cases vigorously. No further progress was reported till finalization of this report.

Audit recommends to pursue the court cases vigorously.

[DP No. 1944]

#### ***2.5.4.34 Non-disposal of land and air mix plants - Rs 698.800 million***

According to Economic Coordination Committee (ECC) of the Cabinet decision dated August 29, 2017 and May 17, 2018, installation of 33 Nos. LPG Air Mix Projects was approved in Northern hilly areas of Punjab, KP, AJ&K and Gilgit-Baltistan for supply of LPG Air Mix to domestic consumers. Later on, ECC in its decision dated March 26, 2020 decided to shelve the installation of all LPG air mix plants on which work has not been started, excluding a plant near completion at Gilgit. Further, SNGPL was instructed to abandon the projects (Drosh, Ayun, and Chitral Town) and dispose of the land and equipment with minimal loss possible through an open transparent process.

During audit of SNGPL for the FY 2021-22, it was observed that management did not implement the directives of ECC in its decision dated March 26, 2020 regarding the auction of land at Dhir Kot Ayun, Drosh and Chitral Town and equipment which was acquired for Rs 203 million for installation of 03 LPG Air Mix plants of 20 MMBTU/hr capacity each as well as LPG air mix

plants of Rs 495.3 million despite lapse of two years. It was worth mentioning that management of SNGPL requested the SSGC and ISGS to purchase these plants for their utilization but they showed inability to purchase these plants however, no substantial steps have been taken to dispose of the land purchased for 03 sites.

Audit was of the view that weak monitoring resulted in non-disposal of land plant and machinery of Rs 698.800 million according to directions of EEC.

The matter was reported to the management in November, 2022. In DAC meeting held on January 05, 2023, the management explained that matter was sub-judice in Peshawar High Court. Last date of hearing was 04.10.2022. The next date was in office.

The DAC directed the management to pursue the case vigorously. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 2172]

***2.5.4.35 Non-deposit of unclaimed dividend in Government Account – Rs 109.039 million***

According to Section 244 of the Companies Act, 2017, where dividend declared by a company remains unclaimed or unpaid for a period of three years from the date it is due and payable, the company shall give ninety days' notice to the shareholders to file claim. If no claim is made by the shareholder, the company shall, after ninety days from the date of publication, deposit any unclaimed or unpaid amount as well as the proceeds from the sale of shares to the Federal Government in a profit-bearing account with the State Bank of Pakistan or National Bank of Pakistan to be called "Companies Unclaimed Instruments and Dividend and Insurance Benefits and Investors Education Account" and shall be deemed to be part of public accounts and interest / profit accumulated thereon shall be credited on a quarterly basis to the Fund. Every company within thirty days of the close of each financial year shall submit to the Commission a return of all unclaimed shares, or dividends in its books in the manner as may be specified by the Commission.

During audit of SNGPL for the FY 2021-22, it was observed that the company reflected unclaimed dividend under current liabilities in the Financial Statements during last FYs as follows:

(Rs in million)

<b>FYs</b>	<b>Unclaimed Dividend</b>
2018-19	109.039
2019-20	164.753
2020-21	156.270
2021-22	183.764

The company neither took adequate actions relating to unclaimed dividend in the light of the provision of the Act *ibid*.

Audit was of the view that weak financial management resulted in non-deposit of unclaimed dividend of Rs 109.039 million to Federal Government. Similar nature para was also pointed out in audit reports 2021-22 [Para No. 2.5.4.43] of Rs 111.462 million.

The matter was reported to the management in November, 2022. In DAC meeting held on January 05, 2023, the management explained that unclaimed dividend amount of Rs 340.034 million indicated in the Audit Report was actually Rs 183.764 million as on June 30, 2022. Furthermore, on receipt of requisite particulars and federal government account, the amount would be transferred accordingly.

The DAC directed the management to follow up the matter with Petroleum Division / Finance Division. No further progress was reported till finalization of this report.

Audit recommends to deposit the unclaimed dividend and proceeds from the sale of shares along with interest earned on it into the profit bearing account with the SBP or NBP.

[DP No. 2173]

***2.5.4.36 Un-authorized supply to 177 industrial units in violation of GSA and gas priority order issued by the Government***

According to Clause 19(ii) of Gas Sales Agreement, where the company determines or has evidence that the consumer is pilfering natural gas by tampering with the meter or any other equipment or is securing natural gas through any other unauthorized means or has attempted to do any of the foregoing acts supply of natural gas premises shall be disconnected forthwith

without any notice. Further, according to Clause 72.4 of BD Manual of SNGPL, In charge Billing shall ensure effective monitoring on the Billing record of every industrial consumer and in case the gas consumption shoots up abnormally, the Billing department shall immediately refer the case to BD Section for investigation and take appropriate action / disconnection.

During audit of SNGPL for the FY 2021-22, it was observed that the management was not able to monitor the un-authorized load enhancement by 177 industrial consumers including CNG stations ranging from 30% to 402% against excess usage of gas beyond their entitlement for monthly consumption according to contractual load (GSA). Consumers increased their load / consumption beyond the sanctioned load thus leaving the installed Gas Meter overloaded. Further, if the meters were continuously working beyond their capacity, there was a risk of under-sizing / overloading of meters which leads to meter wear and tear. However, no action was taken by the management according to company policy as there was no comprehensive mechanism to address contractual / connected load violations. The management neither took punitive actions against the delinquents nor were their connections disconnected. This resulted in unauthorized load enhancement during last two years in violation of GSA by CNG. Further, SNGPL supplied gas to CNG stations over their contractual load resulted in gas shortage to indigenous consumers and more RLNG diverted to domestic consumers which translated to more financial burden to FG as well as the consumption over and above the contractual load should be charged at the RLNG rates.

Audit was of the view that due to weak monitoring meters were not disconnected which resulted in violation of GSA and would also result in excess usage of gas than allowed load.

The matter was reported to the management in November, 2022. In DAC meeting held on January 05, 2023, the management explained that SOP for Load Enhancement had been approved and circulated to all regional heads. Necessary action had already been taken against all cases.

The DAC directed the management to take up the matter with OGRA for insertion of penalty clause in GSA and share SOP for Load Management with Audit.

Audit recommends to implement the decision of DAC.

[DP No. 2180]

## **2.6 Sui Southern Gas Company Limited**

### **2.6.1(A) Introduction**

Sui Southern Gas Company Limited (SSGC) is a public limited company incorporated in Pakistan and listed in Pakistan Stock Exchange. Shareholding of Government of Pakistan in the company is 53.18%.

The main activity of the company is transmission and distribution of natural gas in the provinces of Sindh and Baluchistan. 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 3.113 million consumers in Sindh and Baluchistan through pipeline network of 47,520 KMs. The company is plagued with multiple problems that inter-alia includes governance issues, operational inefficiency, contract and project management that have suppressed the profitability and business growth of the Company over the period of time. The company has not been able to finalize its accounts for the FYs 2020-21 and 2021-22 to resolve certain issues with its regulator namely OGRA leading to non-determination of its revenue requirements for the aforesaid financial years.

### **2.6.1(B) Comments on Company Performance**

Audited accounts for the financial years 2020-21 & 2021-22 were not finalized till finalization of this report. The working results of the company for the financial year 2019-20 (consolidated) as compared to the previous years are tabulated below:

(Rs in million)

Head of Account	2019-20	2018-19	2017-18	2016-17	2015-16
Sales (Net )	290,240	297,167	177,404	156,512	138,616
Other Income	15,769	14,410	14,002	10,189	25,799
Total Revenues	306,009	311,577	191,406	166,701	164,415
Cost of Gas	307,291	295,127	164,938	140,658	147,285
Expenses	19,987	34,812	37,793	28,130	23,246
Total Expenses	327,278	329,939	206,257	168,788	170,531
Total Profit or Loss	(21,269)	(18,362)	(14,848)	1,336	(6,115)

(Source: Annual Audited Account)

The company's financial performance during the year has deteriorated mainly because of higher UFG, certain additional disallowances by OGRA on account of UFG, and staggering of losses due to dismissal of Company's petitions by Sindh High Court.

## 2.6.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 374,270.614 million were raised in this report during the current audit of SSGC. This includes recoverable amount of Rs 363,022.575 million as pointed out by Audit. Summary of the audit observations classified by nature is as follows:

(Rs in million)		
Sr. No.	Classification	Amount
1	Irregularities	
A	Distribution Related Issues & UFG Losses	2,893.825
B	Receivables Management	363,022.575
C	Procurement Related Irregularities	1,101.937
2	Others	7,252.277

## 2.6.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
1992-93	10	09	01	90
1994-95	02	01	01	50
2000-01	05	04	01	80
2002-03	08	07	01	88
2003-04	08	06	02	75
2006-07	13	10	03	77
2007-08	11	10	01	91
2010-11	07	05	02	71
2011-12	07	0	07	0
2012-13	05	0	05	0
2013-14	22	08	14	36
2014-15	03	0	03	0
2015-16	24	10	14	42
2016-17	16	05	11	31
2017-18	14	03	11	21
2018-19	08	0	08	0
2019-20	05	02	03	40
<b>Total</b>	<b>168</b>	<b>80</b>	<b>88</b>	<b>48</b>

The overall compliance of PAC directives needs improvement.

## 2.6.4 Audit Paras

### Distribution Related Issues & UFG Losses

#### 2.6.4.1 Wasteful expenditure on UFG control related activities and high UFG trend – Rs 2,303.093 million

According to Section III of UFG study (approved by OGRA) 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) were introduced. Further, the annual UFG allowance was linked to the achievement of these KMIs.

During audit of SSGC for the FY 2020-21, it was observed that the management failed to control the UFG losses despite incurring expenditure of Rs 2,303.093 million in respect of rehabilitation, reinforcement, meter replacement and services replacement for UFG control related activities for the FYs 2018-21. The detail was as under:

(Rs in million)					
FY	UFG losses of Indigenous Gas (MCF)	UFG losses (%)	Rate Cost of Gas (WACOG) MCF	Amount of UFG losses	Budget utilized
2018-19	72,644,000	17.09	500.47	36,356.14	238.946
2019-20	68,626,000	17.25	525.15	36,038.94	1,328.420
2020-21	62,329,000	17.18	533.45	33,249.41	735.727
	<b>Total</b>			<b>105,644.49</b>	<b>2,303.093</b>

UFG losses at overall company level remained at around 17% which were higher than the UFG benchmark @ 6.30% fixed by OGRA and resulted in huge loss of Rs 105,644.49 million for the FY 2018-2021. Moreover, the management did not achieve UFG reduction targets relating to Segmentation & Rehabilitation for the last three years. Non-segmentation created a barrier for reconciliation of UFG losses as well. It was also observed that UFG losses in 07 Sales Meter Stations of Baluchistan & Interior Sindh ranged from 21.49% to 75.52%. The management was required to focus on these SMSs which were prone to high UFG losses as advised in the UFG study approved by OGRA but the management failed to control UFG in these regions despite increasing trend of UFG in these SMS for the last two years.

Audit was of the view that management failure resulted in high UFG losses despite spending huge amount of Rs 2,303.093 million. Similar nature paras were also pointed out in audit reports 2021-22 [Para No. 2.6.4.2] of Rs 12,982.700 million, 2020-21 [Para No. 2.6.6.2] of Rs 22,254 million and 2019-20 [Para No. 2.6.6.10] of Rs 39,549.840 million.

The matter was reported to the management in May 2022. In DAC meeting held on January 10, 2023, the management stated in case of DP No. 1855 that the UFG had decreased in terms of volume by around 4 BCF & 13 BCF in FYs 2019-20 & 2020-21, respectively. Further, UFG figure 62.3 BCF in FY 2020-21 based on 6.3% UFG allowance on RLNG volumes which was not in line with the ECC directions of 2016 i.e. “an actual average UFG for last financial year would be taken in determination”. The actual UFG of FY 2020-21 was 55.4 BCF as per the ECC’s decision. The matter was taken to Honourable Islamabad High Court, where the courts graciously accepted SSGC’s petition. The same UFG of 55.4 BCF was submitted in FRR 2020-21 to OGRA. In case of DP No. 1856 it was stated that the UFG was higher during the audited period due to wide spread Covid 19 where provisional billing was implemented and later withdrawn. However, due to diligent efforts by the management, a substantial reduction of UFG was recorded on these SMSs. Audit contended that concrete efforts were required to control the UFG losses.

The DAC directed the management to expedite the efforts to reduce the UFG losses. No further progress was reported till finalization of the report.

Audit recommends to make efforts for achieving structured UFG Management and Control Strategy in letter and spirit to bring UFG losses within permissible limit.

[DP Nos. 1855 & 1856]

#### ***2.6.4.2 Loss on account of Gas pilferage by various customers – Rs 445.005 million***

According to Para 462D and 462E of chapter XVII-A relating to Oil and Gas etc. published in the Gazette of Pakistan, dated December 02, 2011, tampering with gas meters by consumers, 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 fine which may

extend to one hundred thousand rupees or both and imprisonment which may extend to ten years but shall not be less than five years or fine which may extend to five million rupees or both in case of Industrial and Commercial consumers.

During audit of SSGC for the FY 2021-22, it was observed that SSGC suffered a loss amounting to Rs 445.005 million on account of gas pilferage by domestic, commercial and industrial customers as detailed below:

(Rs in million)

Sr. No.	Audit Observation No. & Date	Type of Consumers	No. of Consumers	Gas Theft (MCF)	Amount
1	42, dt.13.10.2022	Domestic	05	53,032	12.299
2	43, dt.13.10.2022	Commercial	468	175,823	304.621
3	44, dt.13.10.2022	Industrial	11	81,501	128.085
<b>Total</b>			<b>484</b>	<b>310,356</b>	<b>445.005</b>

Audit was of the view that ineffective monitoring resulted into loss of Rs 445.005 million to the Company in the shape of pilferage of gas. Similar nature paras were also pointed out in audit reports 2021-22 [Para No. 2.6.6.8] of Rs 133.010 million, 2020-21 [Para No. 2.6.6.4] of Rs 340.413 million and 2019-20 [Para No. 2.6.6.12] of Rs 971.920 million.

The matter was reported to the management on October 13, 2022. In DAC meeting held on January 10, 2023, the management stated that out of Rs 445.005 million an amount of Rs 206.96 million had been recovered.

The DAC directed the management to get the recovered amount verified by Audit within two weeks. No further progress was reported till finalization of the report.

Audit recommends to recover the loss and get the recovered amount verified as per DAC directives.

[DP No. 2264]

#### ***2.6.4.3 Unauthorized waiver of billable charges due to tampering of claims - Rs 145.727 million***

According to Rule 5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, the principle of probity and propriety entails that a

company's assets and resources are not used for private advantage and due economy is exercised to reduce wastage. The principle shall be adhered to, especially for handling public funds, assets, resources, and confidential information by directors, executives, and employees and claiming expenses.

During audit of SSGC for the FY 2021-22, it was observed from the presentation given in September, 2022 regarding Internal Audit Department of the company, that the HR department received a complaint from the field / regional office that certain privileges related to waiver of billable charges (such as PUG, Reconnection Charges, Meter Tampering Claims etc.) were misused and multiple charges were waived off from consumers during the year 2019. Thirteen (13) executive / staff of Quetta Region were identified, who performed the waiver of billable charges. However, the identified 13 users claimed that they were not aware of such transactions and their CC&B user credentials were compromised and transactions were not performed from their user machines. This resulted into un-authorized wavier of billable charges of Rs 145.727 million.

A review from Internal Audit of the Company was carried out but in the absence of comprehensive security logging related to the CC&B user ID, Workstation name & IP address along with session details (login / log out date & time stamping) and user activities, it could not be established that certain transactions were in fact performed by the specific users or not.

Audit was of the view that due to lack of monitoring activities unauthorized billable charges were waived off.

The matter was reported to the management on October 03, 2022. In DAC meeting held on January 10, 2023, the management stated that disciplinary action against delinquent officials were initiated and recovery was under process.

The DAC directed the management to get the stated stance verified from Audit within one week.

During verification dated February 03, 2023 the management provided the evidence of action against delinquent officials. However, recovery of the amount involved was under process.

Audit recommends to recover the amount at the earliest.

[DP No. 2258]

## Receivables Management

### **2.6.4.4 Non-recovery of outstanding dues from customers – Rs 362,413.286 million**

According to Para 4.1.2(c) read with Para 4.4.1, of Natural Gas Consumer Services Manual 2011, the Company will recover amount in default of gas bills through various methods. Disconnection of gas supply will be one of such method which will be used as a threat to enhance recovery.

During audit of SSGC for the FY 2021-22, it was observed that the management failed to recover outstanding amount of Rs 362,413.286 million from customers. The detail is as under:

(Rs in million)				
Sr. No.	Audit Observation No. & Date	Consumer Type	No. of Consumers	Outstanding Amount
1	23, dt. 11.09.2022	Domestic	1,705	339.915
2	24, dt. 11.09.2022	Domestic Government	106	113.266
3	25, dt. 11.09.2022	Domestic Bulk	49	26.380
4	26, dt. 12.09.2022	Commercial	615	222.481
5	35, dt. 03.10.2022	Industrial Bulk	08	8,574.487
6	36, dt. 03.10.2022	Industrial	24	237.757
7	40, dt. 12.10.2022	Others (Circular Debts)	07	352,899.000
<b>Total</b>			<b>2,514</b>	<b>362,413.286</b>

Audit was of the view that weak financial controls resulted in outstanding amount of Rs 362,423.286. Similar nature paras were also pointed out in audit reports 2021-22 [Para No. 2.6.6.16] of Rs 63,448 million, 2020-21 [Para No. 2.6.6.6] of Rs 1,423.493 million and 2019-20 [Para No. 2.6.6.16] of Rs 20,012.960 million.

The matter reported to the management on September 11 & 12, 2022 and October, 03 & 12, 2022. In DAC meeting held on January 10, 2023, the management stated that out of outstanding amount of Rs 362,413.286 million, an amount of Rs 225.13 million had been recovered however, Rs 55.6 million had been verified by Audit.

The DAC reduced the para to the extent of recovered and verified amount of Rs 55.641 million and directed the management to expedite the recovery of

balance amount within one month. No further progress was reported till finalization of the report.

Audit recommends for early recovery of the outstanding dues.

[DP No. 2262]

***2.6.4.5 Non-recovery of outstanding amount due to non-pursuance of court cases - Rs 574.093 million***

According to Para No. 3.1 of Legal Services Policy, Legal Services Department (LSD) is responsible to manage and look after the organization's legal matters and to give advisory service and strategic guidance, consultation and support on legal, issues, ensuring legal and regulatory compliance. The mandate of the department shall comprise of appointment of lawyers for filing and defending court cases.

During audit of SSGC for the FY 2020-21, it was observed that 103 recovery cases were pending at different courts involving an amount of Rs 574.093 million. Out of these, 25 cases remained pending for recording of evidence in courts of law but the management did not submit proper evidences / documents at evidence stage which caused a delay in court proceedings. This resulted in non-recovery of Rs 574.093 million due to non-pursuance of court cases effectively.

Audit was of the view that lethargic attitude of the management resulted in non-pursuance of court cases causing non-recovery of Rs 574.093 million.

The matter was reported to the management in April 2022. In DAC meeting held on January 10, 2023, the management stated that timely filed recovery suits and made sure that witnesses from relevant departments should attend hearings however, unavoidable procedural requirements caused delays in court cases.

The DAC directed the management to conduct fact finding inquiry and fix the responsibility on the person(s) at fault for non-pursuance of court proceedings and submit the report to Audit within one week.

During verification dated February 03, 2023 the management shared the inquiry report which was based on general arguments without highlighting the issues of the pending court cases.

Audit recommends to implement the decision of DAC.

[DP No. 1860]

#### ***2.6.4.6 Non-recovery of outstanding amount – Rs 35.196 million***

According to Rule 14(1) of Public Sector Companies (Corporate Governance Rules), 2013, 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 SSGC for the FY 2021-22, it was observed that the management failed to recover outstanding amount of Rs 34.360 million from SNGPL and Rs 0.836 million from other parties which were customers of Meter Manufacturing Plant aggregating to Rs 35.196 million

Audit was of the view that due to weak financial controls, the outstanding amount could not be recovered from the clients.

The matter was reported to the management on August 23, 2022. In DAC meeting held on January 10, 2023, the management stated that out of the total outstanding and Rs 33.2 million pertained to sales and income tax challans not received from SNGPL. These challans now stood time barred. The amount would be written off after the approval of management.

The DAC directed the management to take up the matter with SNGPL for recovery.

Audit recommends for early recovery of the outstanding dues under intimation to Audit.

[DP No. 2274]

### **Procurement Related Irregularities**

#### ***2.6.4.7 Mis-procurement due to irregular negotiation of bid price and quantity - Rs 442.990 million***

According to Rule 40(1) of Public Procurement Rules, 2004, there is limitation on negotiations as “without changing the cost and scope of work or services, the procuring agency may negotiate with the successful bidder (with a view to streamline the work or task execution, at the time of contract

finalization) on methodology, work plan, staffing and special conditions of the contract”.

During audit of SSGC for the FY 2021-22, it was observed that in five cases purchase requirement of stores of Meter Manufacturing Plant Department bids were required from trade through advertisement. However, recommendations were made for procurement on negotiation basis either by adopting one or another way and finally purchase orders valuing Rs 442.990 million were issued to different bidders. Detail was as under:

(Rs in million)

Sr. No.	Audit Observation No. & Date	Amount involved	Negotiated procurement manner
1	02 23.08.2022	91.350	By reducing the offered quantity of the first lowest bidder and procurement of the reduced quantity from 2 <sup>nd</sup> lowest and 4 <sup>th</sup> lowest bidder.
2	04 23.08.2022	58.825	By reducing price of the 4 <sup>th</sup> lowest bidder after opening of the bid and procurement of stores from 3 <sup>rd</sup> lowest, 4 <sup>th</sup> lowest and 5 <sup>th</sup> Lowest bidder.
3	08 30.08.2022	99.890	By increasing and decreasing the bid price of quoted items and giving advantage to all bidders by ignoring their already given bid prices.
4	13 30.08.2022	95.625	By ignoring the lowest bid quoted prices of the items and increasing/decreasing of the bid price of the quoted items as well as giving advantage to all bidders.
5	17 05.09.2022	97.300	After bid opening allowing discount in price, increasing and decreasing the bid price of the quoted items as well as giving advantage to all bidders.
	<b>Total</b>	<b>442.990</b>	

Audit was of the view that such kind of negotiation was irregular and was tantamount to mis-procurement which was not covered under the PPRA Rules. Further, it created doubts of collusive practices and defeat the purpose of competitive bidding and transparency.

The matter was reported to the management on August 23 & 30, 2022 and September 05, 2022. In DAC meeting held on January 10, 2023, the management stated that PPRA Rules fully allowed to execute procurement of proprietary items by invoking provisions of Rules ibid and thereafter SSGC had floating manufacturing / proprietary item tenders.

The DAC directed the management to get the stated stance verified from Audit within one week.

During verification dated February 03, 2023 the management provided the record for verification which showed that neither PPRA nor its letter allowed to make such kind of negotiated procurement as pointed out by Audit.

Audit recommends to fix responsibility and ensure strict compliance of Public Procurement Rules, 2004.

[DP No. 2257]

***2.6.4.8 Irregular procurement of services due to unjustified extension of contract - Rs 229.386 million***

According to Rule 16 (A) of PPRA, 2004 “Procurement of common use items, services and commodities through framework agreements: - (1) the Procuring Agency shall arrange the procurement through framework agreements of recurrent or common use items, services including maintenance services and those commodities, whose market prices fluctuate during the term of the agreement, for a maximum period of three years”.

During audit of SSGC for the FY 2020-21, it was observed that the management advertised a tender for provision of Manpower (Skilled, Un-Skilled & Semi Skilled Workers). In response to advertisement, six (6) pre-qualified contractors submitted their bids and M/s Fulcrum (Pvt) Ltd. being the lowest bidder was eligible for the award of contract. The Board of Directors approved the award of contract to M/s Fulcrum (Pvt) Ltd. for providing services of 250 workers at a total contract value of Rs 125.120 million. The period of the contract was 1 year i.e., from February 2016 to February, 2017. The contract was extended in 2017 for another two years till February, 2019 and then again for a period of six month from March 01, 2019 to August 31, 2019. Since 2019, the management was extending the contract on monthly basis without approval of the Board of Directors. Hence, the contract which was originally awarded for 1 year was extended to 6 years without justification. This unjustified extension resulted into irregular payment of Rs 229.386 million.

Audit was of the view that poor management practices resulted in unjustified extension of contract and irregular payment of Rs 229.386 million.

The matter was reported to the management in May 2022. In DAC meeting held on January 10, 2023, the management stated that in the year 2019, P&C and HR Department collectively worked out and prepared a BOQ and bids were invited from Prequalified Outsourced Service Providers (OSP's) wherein M/s Fulcrum Private Ltd. was again declared to be technically compliant and also the lowest bidder. Thereafter, the tender was taken to the Board for approval, however, the Board being the Competent Authority in all matters, in its 535<sup>th</sup> meeting held on October 25, 2019 did not approve the same and dropped the matter till finalization of manpower study. However, the company already discontinued all business activities with M/s Fulcrum Private Ltd. with effect from December 31, 2021.

The DAC directed to get the stated stance verified from Audit.

During verification dated February 03, 2023 the management provided the record which showed that contract procurement was not justified as the Board Procurement Committee in its 535<sup>th</sup> meeting held on October, 2019 deferred the case of contract approval but the contract was continued till December 31, 2021. Further, the management did not provide ex-post facto approval of the Board for extended period of contract.

Audit recommends to probe the matter regarding unjustified extension besides terminating the existing contract and acquiring services through fresh bidding.

[DP No. 1865]

#### ***2.6.4.9 Imprudent investment on Smart Metering Project (SMP) - Rs 227 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 2021-22, it was observed that the Internal Audit Report of SSGC for the Year 2016 raised an observation that Smart Metering Project (SMP) i.e., Master Data Management (MDM) Software initiated in September 2011 did not come to life. A charge sheet was issued to SGM Special Projects dated March 31, 2020 alleging he committed with ulterior motives, resulted in financial losses to the company during his tenure as Chief

Technology Innovation Officer (CTIO) with IT department. Accused had a major role in procurement of all the (4x) items of Smart Metering Project (SMP) i.e., MDM Software, Purchase of 10,000 AL-425 Meters, AIA Software and AMI Solution and he succeeded in purchasing (3x out 4x) items. However, SMP project did not come to life resulting in wastage of an amount of Rs 180 million. Further, MDM and AIA software(s) continuously stayed on the Service Level Agreements (SLAs) which resulted in another loss of Rs 47 million. Thus, total loss of Rs 227 million suffered by the Company on account of SMP. An inquiry was conducted against the accused. The inquiry report dated October 05, 2021 concluded that the charges against the accused officer stood unsubstantiated and that the committee had no reason to recommend any disciplinary action against the accused officer.

Audit was of the view that poor procurement management resulted in imprudent investment on Smart Metering Project (SMP) amounting to Rs 227 million.

The matter was reported to the management on October 06, 2022. In DAC meeting held on January 10, 2023, the management stated that the Preliminary Investigation had been initiated on the instant matter.

The DAC directed the management to share the final inquiry report of Board Audit Committee to Audit and provide the final amount of loss (if any) incurred to the company. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2259]

#### ***2.6.4.10 Splitting of procurement in violation of PPRA Rules, 2004 - Rs 172.691 million***

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

During audit of SSGC for the FY 2020-21, it was observed that management published two tenders for procurement of Polyethylene Pine (PE-100) under item Code No. 24013033 against two different requisitions raised by

Distribution Department which was published in newspaper on two different dates. The detail of contracts is as under:

(Rs in million)

Sr. No.	Requisition No. & Date	Tender File	Advertisement Date	Vendor Name	PO No.	Value
1	340953/ 19.10.2020	SSGC/LP/P T/ 1355051	19.11.2020	Alpha Pipe Industries Ltd.	27354	76.106
2	348205/ 24.02.2021	SSGC/LP/P T/ 1397222	08.03.2021	International Industries Ltd.	27190	96.585
<b>Total</b>						<b>172.691</b>

The above facts transpired that the management procured the same items from two different vendors in the same financial year 2020-21 by splitting of the procurements which was violation of PPRA, Rules 2004.

Audit was of the view that poor procurement management resulted in irregular procurement of same items in two different tenders in the same financial year i.e. also the violation of PPRA Rules hence, procurement of Rs 172.691 million was considered irregular.

The matter was reported to the management in April 2022. In DAC meeting held on January 10, 2023, the management stated that the replenishment of Store stock was being maintained by Stores Department keeping in view in stock, on order quantities, Storage capacity, average monthly consumption (AMC) and sufficient for Month (SFM). To maintain inventory level, exercise was done on monthly basis, to suggest for quantities to be indented to bring the balance back to the defined optimum level so that requisition could be raised to replenish the stock.

The DAC directed the management to share the trend analysis of the inventory within one week. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 1862]

#### ***2.6.4.11 Unjustified placement of repeat order despite poor performance of the supplier - Rs 18.630 million***

According to Clause 28.2 of General Terms & Conditions of the bidding documents “the company shall have the right to terminate/cancel the

contract/purchase order concluded between the supplier and Company in case of rejection of manufacturing items as a result of observation by inspection team”.

During audit of SSGC for the FY 2020-21, it was observed that the management awarded a contract for procurement of 500 No. of EVC to M/s Honeywell through SAF International (Local Agent). Out of these, 29 EVCs were found defective / malfunctioned after installation but the defective items were not replaced. Later on, the measurement department raised requisition dated 24.02.2022 for further procurement of 75 EVCs by invoking Rule 42(c)(iv) of PPRA Rules, 2004 about repeat order. The detail of repeat order is as under:

Item Description	Unit Price FOB (USD)	Repeat Order Qty @ 15% of the original procurement	Total Amount of Repeat Order (US\$)
Electronic Volume Correctors (EVC)	1,347	75 nos.	101,025

Audit was of the view that poor procurement management resulted in unjustified placement of repeat order valuing Rs 18.630 million (US\$ 101,025 @ Rs 184.41).

The matter was reported to the management in May, 2022. In DAC meeting held on January 10, 2023, the management stated that M/s Honeywell supplied 500 Nos, out of which 29 Nos. EVCs malfunctioned after installation, which were replaced by vendor free of cost promptly. In view of satisfactory performance of 471 Nos EVCs, free of cost and prompt replacement of defective EVCs, the repeat order of 75 EVCs was placed.

The DAC directed the management to get the stated stance verified from Audit within one week. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 1850]

#### **2.6.4.12 Loss due to award of contract at higher rate - Rs 11.240 million**

According to PPRA Rule 2(1), “value for money” means best returns for each rupee spent in terms of quality, timeliness, reliability, after sales service, up-grade ability, price, source, and the combination of whole-life cost and quality to meet the procuring agency’s requirements. Moreover, PPRA Rules-4 provides that Procuring agencies, while engaging in procurements, shall ensure

that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of SSGC for the FY 2021-22, it was observed that the management suffered a loss amounting to Rs 11.240 million due to award of tender to M/s BASF Pakistan (Private) Ltd. at higher rate. The management advertised on November 22, 2021 for procurement of Acetal Copolymer, (25 kg/Bag) quantity of 40,000 bags. Meanwhile, only one bidder participated in tender and offered bid Rs 650 each bag, for quantity of 40,000 bags, value Rs 26 million. Moreover, on scrutiny of record it was revealed that few months ago the management had procured same Acetal Copolymer, (25 kg/Bag) quantity 30,000 from M/s Plastochem Corporation at the rate @ Rs 369 each in October, 2021. The price comparison of both tenders was as under:

Sr. No.	P.O	Dated	Description	Supplier	Unite Price	Qty
1	28226	26.01. 22	Acetal Copolymer, (25 kg/Bag)	M/s BASF Pakistan (Private) Limited	650	40,000
2	27765	05.10.21	Acetal Copolymer, (25 kg/Bag)	M/s. Plastochem Corporation	369	30,000
<b>Unit Price Difference between both Supplier</b>					<b>281</b>	
<b>Suffered loss due to purchased higher rate (Rs 281 x Q 40,000) =</b>						
<b>Rs 11,240,000</b>						

Audit was of the view that management could have availed re-tendering option, for best offer price, as compared to previous procurement, but the management contracted awarded to single participated bidder resulting into loss of Rs 11.240 million.

The matter was reported to the management on August 23, 2022. In DAC meeting held on January 10, 2023, the management stated that SSGC was facing acute shortage of Acetal Copolymer Plastic Moulding Compound due to unavailability of this material in local and international market during the FY 2021-22. Therefore, the quoted rates of M/s BASF Pakistan of Rs 650 was high.

The DAC directed the management to conduct fact finding internal inquiry and submit the report within one week. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2255]

## **Others**

### ***2.6.4.13 Non-completion of gas rehabilitation schemes - Rs 6,877.667 million***

According to Para 6.1 of Network Extension of Natural Gas Allocation Management Policy, 2005 notified by Ministry of Petroleum & Natural Resources in September, 2005, it is the endeavor of the Federal Government to facilitate augmentation of natural gas network for the best socio-economic development of the country.

During audit of SSGC for the FY 2021-22, it was observed that:

- i. SSGC was mandated to supply gas to the various economically backward areas in Provinces of Sindh (481 villages) and Balochistan (22 villages) under various schemes approved at project cost of Rs 2,983 million & Rs 204 million respectively (totaling Rs 3,187 million) during the period 2015-16 to 2021-22 (including one scheme of Sindh i.e. Shahoo Magsi, District, Thatta approved at project cost of Rs 3.347 million in 2008-09). However, despite lapse of abnormal period, the works were not started by the management on the same schemes up to June 30, 2022. Similarly, the management started works on various schemes of gas supply to economically backward areas in Provinces of Sindh (89 villages) & Balochistan (18 villages) at approved project cost of Rs 1,095 million & Rs 934 million respectively (totaling Rs 2,029 million) during the period 2009-10 to 2021-22. The planned network of 408 Kilometers (Sindh Province 264 Km & Balochistan Province 144 Km) was required to be covered under these schemes. However, despite lapse of abnormal period only 196 Km (Sindh Province 130 Km & Balochistan Province 66 Km) were covered up to June 30, 2022;
- ii. Three schemes with an estimated cost of Rs 1,405.098 million i.e., segregation of gas pipeline distribution network in site area, Hyderabad, amounting to Rs 55.436 million, Major Extension case 16" dia supply line (RLNG), to Bostan Special Economic Zone, Quetta for Rs 731.447 million and Supply of Gas to Enayatullah Karez District Qilla Abdullah, Balochistan for Rs 618.215 million were approved during the period from

June, 2016 to October, 2021 but despite lapse of considerable time the schemes were not completed up to June 30, 2022;

- iii. Reinforcement Segmentation Scheme of Irrigation Colony, Sariab Road, Quetta amounting to Rs 189.214 million was approved by Managing Director in August, 2020. However, despite lapse of considerable time of approx. 02 years the Gas scheme was yet to be completed;
- iv. Funds Rs 45.316 million received on April 30, 2012 from district Government for supply of gas to village Siandad and twelve (12) others villages. However, the Managing Director approved the enhancement of actual cost by Rs 7.471 million due to increase in the length of pipeline by 2.140 Km & mains laying rates for FY 2012-13. A total amount of Rs 52.787 million was allocated to execute the above job with laying of total pipeline 20.470 Km. But despite lapse of considerable time of 10 years the gas supply scheme was yet to be completed; and
- v. The management incurred additional cost for completion of rehabilitation scheme Shah Faisal Cantt Bazar, Karachi amounting to Rs 14.568 million against the sanctioned budget of rehabilitation scheme of Shah Faisal Cantt Bazar, Karachi, Project No. 0821K015 was capitalized on August 18, 2022 on completion of 90% work done. The total length of the main pipes was 16,700 meters; however, actual length done by the department was 13,700 meters with actual cost of Rs 154.525 million viz budgeted amount of Rs 140.734 million. This resulted into variation of Rs 14.568 million.

Audit was of the view that due to inaction of the management, objectives of the notified policy to facilitate the backward areas with gas supply was not achieved depriving the inhabitants and the running cost of the jobs would also increase day by day.

The matter was reported to the management in August & September, 2022. In DAC meeting held on January 10, 2023, the management informed that execution work was stopped several times due to law and order situation, tribal feuds, and due to non-clearance of ROW for the route of schemes.

The DAC directed the management to share the list of completed schemes for verification and expedite the completion of work in progress and submit comprehensive reply in remaining cases.

Audit recommends to implement the decision of DAC.

[DP Nos. 2260, 2272, 2276, 2277 & 2280]

***2.6.4.14 Blockage of funds due to unnecessary procurement – Rs 204.561 million***

According to Para 3.1 of Stores Department Policy “Stores Department shall support continuous operations of SSGC by maintaining optimal inventory levels and un-interrupted flow of materials and services, through effective material requirement planning in consultation with User Department, warehousing, distribution and disposal business and inventory of assets”.

During audit of SSGC for the FY 2020-21, it was observed the huge quantities of store items like line pipe, Spares for Compressors Turbine, Detection Equipment, Spares for Generators etc. were lying unconsumed in the store with aging of 5 to 10 years. This showed that management had made unnecessary procurement. This resulted in blockage of funds of Rs 204.561 million.

Audit was of the view that poor inventory management resulted in unnecessary procurement causing blockage of funds of Rs 204.561 million.

The matter was reported to the management in January 10, 2023. In DAC meeting held on January 10, 2023, the management stated that purchase was made on the basis of stock consumption trend, sufficient for month, stock in-hand, stock in-process, stock on-order etc. so that appropriate quantities could be indented in order to fulfil the requirement at optimum level. The project material was normally procured with 5 % to 10% additional material against the requirement.

The DAC directed the management to submit action plan regarding inventory / store and rationalize the time period within three months.

Audit recommends to implement the decision of DAC.

[DP No. 1851]

***2.6.4.15 Variation of 15,150 meters between meter production and allocation of meter serial numbers - Rs 111.913 million***

According to Para No. 4.3.3 of Meter Manufacturing Plant Policy document of SSGC Version 01 dated December, 2018, a unique identity reference number shall be allocated to all gas meters. Affixation of serial number on meters may be in house or out sourced as deemed appropriate.

During audit of SSGC for the FY 2021-22, it was observed from the monthly production data of G-4 gas meters that total number of 145,398 meters were produced during the year under audit. On other hand, the data for allotment of unique identity reference number showed that 130,248 produced G-4 gas meters were allocated serial numbers. Thus, there was a difference of 15,150 meters between the monthly production of G-4 gas meters and monthly allocation of serial numbers to the G-4 gas meters.

Audit was of the view that difference between production of meters and allotment of serial numbers to the produced meters creates doubt of missing of 15,150 meters worth Rs 111.913 million @ Rs 7,387 per unit which were not allocated serial numbers.

The matter was brought to the notice of the management on August 30, 2022. In DAC meeting held on January 10, 2023, the management stated that there was no record of 15,150 missing gas meters of G-4. Further, the actual production of G-4 gas meters was 146,248 instead of 145,398.

The DAC directed the management to conduct fact finding internal inquiry and share the report with Audit within two months.

Audit recommends to implement the decision of DAC.

[DP No. 2267]

***2.6.4.16 Blockage of funds due to non-consumption of stores - Rs 58.136 million***

According to Para 3.1 of Store Department-Policy Document of SSGC Store Department shall support continuous operation of SSGC by maintaining optimal inventory levels and uninterrupted flow of materials and services, through effective material requirement planning in consultation with User Department, distribution and disposal of business and inventory assets.

During audit of SSGC for the FY 2021-22, it was observed that stores pertaining to Meter Manufacturing Plant amounting to Rs 58.136 million aging more than ten years were lying idle without consumption. This resulted into blockage of funds of Rs 58.136 million of the company as detailed under:

(Rs in million)

Sr. No.	Ageing of stores items	Value of Stores
1	10 to 15 years	49.671
2	15 to 20 years	1.781
3	Above 20 years	6.684
	<b>Total</b>	<b>58.136</b>

Audit was of the view that due to lack of planning in procurement of stores funds of the company were blocked in purchase of the stores which remained idle for many years without consumption.

The matter was brought to the notice of the management on August 30, 2022. In DAC meeting held on January 10, 2023, the management stated that Rs 58.136 million was underlying on the data based on the date of purchase of material, however, based on the current stock position (LOB) of store it was evident that material was not blocked due to non-consumption.

The DAC directed the management to submit action plan regarding inventory / store and rationalize the time period within one week. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC

[DP No. 2265]

## 2.7 Pakistan LNG Limited (PLL)

### 2.7.1(A) Introduction

Pakistan LNG Limited (the company) was incorporated in Pakistan as a public company on December 11, 2015, under the Companies, Ordinance 1984 (now Companies Act, 2017). The principal activity of the company is to import, transport, market and distribute Liquefied Natural Gas (LNG) and to manage the handling, re-gasification, storage, treatment, transportation and processing of Liquefied Natural Gas (LNG), Re-gasified Liquefied Natural Gas (RLNG). The company's registered office is located on 9<sup>th</sup> floor, Petroleum House, Islamabad. The company started its commercial operations on January 04, 2018. The company is wholly owned by Government Holdings (Private) Limited (the Parent Company). The company has awarded contracts to M/s Gunvor and M/s ENI SPI (the Sellers) for purchase and import of one LNG cargo per month from each seller for a period of five years and fifteen years respectively. The company entered into Operation Services Agreement (OSA) "the Agreement" with Pakistan Gas Port Consortium Limited, (the Operator) on July 01, 2016, for regasification of LNG.

### 2.7.1(B) Comments on Company Performance

(Rs in million)			
Particulars	2020-21	2019-20	2018-19
Revenue	216,913.318	150,886.960	179,477.667
Cost of Sales	207,142.834	(143,612.860)	(173,419.392)
Gross Profit	9,770.484	7,274.099	6,058.275
Administrative Expenses	(372.165)	(149.959)	(179.693)
Other Income	334.702	592.972	393.516
Exchange Loss	9,612.151	(4,094.532)	(3,595.795)
Finance Cost	(5,983.439)	(6,216.994)	(924.746)
Profit / (Loss) before Tax	13,361.732	(2,594.414)	1,751.556
Taxation	4,024.956	(350.863)	(1,891.865)
Profit / (Loss) after Tax	9,336.776	(2,243.551)	(140.309)

(Source: Annual Audited Accounts)

The company sustained losses in two years i.e. 2018-19 & 2019-20 due to high finance costs, low margins, and exchange loss. PLL was facing the problems of non-finalization of GSPA for RLNG with SNGPL and the

accumulation of huge receivables. Due to inconsistent demand, and the absence of a procurement framework, PLL was confronted with the issue of importing LNG at affordable rates for end consumers.

### 2.7.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 144,709.138 million were raised in this report during the current audit of PLL. This also includes recoverable amount of Rs 128,864.051 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

#### Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Procurement Related Irregularities	7,056.834
B	Financial Management	111,138.396
C	Contract Management	26,449.854
D	Ineffective Corporate Governance	-
E	HR / Employees Related Irregularities	64.054

### 2.7.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
2010-11	1	1	0	100
2017-18	4	4	0	100
2018-19	2	0	2	0
2019-20	8	0	8	0
2020-21	6	4	2	67
<b>Total</b>	<b>21</b>	<b>9</b>	<b>12</b>	<b>43</b>

The overall compliance of PAC directives needs improvement.

## **2.7.4 Audit Paras**

### **Procurement Related Irregularities**

#### ***2.7.4.1 Loss due to mismanagement in import of LNG cargo - Rs 7,056.834 million***

According to Para 6.4 of minutes of 80<sup>th</sup> BoD meeting, it was likely that an urgent tender would yield high prices due to less time between the award and delivery of cargo as the number of available suppliers/cargoes were less which had an impact on the price. According to Rule 4 of PP Rules, 2004, procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of PLL for the FY 2021-22, it was observed that the management floated a tender for the spot purchase of LNG, for the month of November 2021, on July 24, 2021. As per the bid evaluation report dated August 24, 2021, M/s Vitol Bahrain offered the lowest bid for the supply of LNG for the delivery window of 26 & November 27, 2021, at the rate of US\$ 20.9266 per MMBtu in response to the demand for LNG communicated by M/s SNGPL in June 2021 for the period September 2021 to January 2022. However, the management cancelled the tender on September 08, 2021, and did not invite tender again. In November 2021 emergency clause was invoked and tender was issued with a bid opening date of November 05, 2021. Only three bidders qualified and the tender was awarded to M/s QP Trading at the higher rate of US\$ 30.65 per MMBtu. This resulted in an excess cost of Rs 7,056.834 million on the purchase of LNG due to cancellation of the tender and delay in decision-making.

Audit was of the view that poor procurement planning resulted in loss of Rs 7,056.834 million as well as an additional burden on end consumers. Similar nature paras were also pointed out in audit reports 2021-22 [Para No. 2.7.4.1] of Rs 10,275 million and 2020-21 [Para No. 2.7.5.8] of Rs 7,732.697 million.

The matter was reported to the management in September, 2022. PLL in its reply dated December 06, 2022 stated that PLL made a strategy, with the approval of the Board, to initiate another tender for October-November, 2021

delivery windows with shorter validity to achieve optimum / best-prevailing prices. Reply was not tenable as historical price in summer season as compared to the winter season was always low. BoD also admitted in its 80<sup>th</sup> meeting that urgent tender yielded high prices due to less time between the award and delivery of cargo.

In DAC meeting held on December 28, 2022 management explained that delivery schedule for November, 2021 was finalized well in time. However, M/s Gunvor declared force-majeure on October 26, 2021 for its 19-20 November, 2021 cargo and M/s ENI conveyed on October 29, 2021, its inability to deliver its November, 2021 cargo. The above circumstances could not be predicted.

The DAC directed the Petroleum Division to conduct a fact-finding inquiry and submit the report within two months.

Audit recommends to implement the decision of DAC besides improving procurement management.

[DP No. 1894]

#### ***2.7.4.2 Payment of premium on LNG purchase due to long bid validity period***

According to PAC Directives of its meeting held on August 25, 2021, PAC directed that enforcement of Public Procurement Rules, 2004 must be operationalized and interpreted beneficially instead of causing mischief to the consumers and exchequer under the cover of said Rules. Further, according to Clause 13 of Rules *ibid*, under no circumstances, the response time shall be less than fifteen days for national competitive bidding and thirty days for international competitive bidding.

During audit of PLL for the FY 2021-22, it was observed that applicability of Public Procurement Rules, 2004 was causing uneconomical procurement in case of spot procurement of LNG. In prevailing Rules, bid submission time was thirty days and announcement the result of bid evaluation was at least fifteen days prior to award of the procurement contract. In this way total time required for processing of bid was forty-five days. Every bidder incorporated allowance for price fluctuation and risks associated with a longer time period. In worldwide industrial norm, it was two to five days for bid processing. Further, the Wood Mackenzie report depicted that Pakistan pays an additional price of US\$ 0.66/MMBTU to US\$ 1.5/MMBTU as an estimated

premium due to intricacies of its procurement requirements. In the FY 2021-22, PLL had to pay Rs 20,540.747 million excess cost on account of premium which was passed on to consumers.

Audit was of the view that weak procurement management resulted in payment of exorbitant Premium on LNG Purchases due to long bid validity.

The matter was reported to the management in September, 2022. PLL in its reply dated December 06, 2022 stated that PLL alone could not carry out procurement of LNG effectively if relevant information of downstream demand / pricing was not shared with PLL. According to the directions of the PAC to Petroleum Division, PLL also requested Ministry of Energy Petroleum Division (in September, 2021) to develop a mechanism for procurement of RLNG considering the input of downstream stakeholders. Further, it was stated that amendments in PP Rules for spot procurement of LNG were at approval stage.

In DAC meeting held on December 28, 2022 management explained that PPL obtained exemptions from PP Rules. Further, matter was being pursued continuously for notifying permanent amendments in PP Rules to cater for spot LNG procurement in line with international industry norms. The DAC directed the management to pursue the case with PPRA for early settlement of the issue. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1911]

## **Financial Management**

### ***2.7.4.3 Non-recovery of trade debts from SNGPL - Rs 83,352.705 million***

According to Section 9.3 of the initialed GSPA, the buyer shall pay all bills, inclusive of Sales Tax and other applicable duties and levies, pertaining to Gas consumption and Monthly take or Pay Quantity delivered in terms of Section 9.1 within (5) days from the day of issuance or receipt, whichever is later, of the bill (the “Due Date”). Further, according to section 9.6 of the initial GSPA, “if the Buyer fails to make the undisputed payment by the due date, then the Seller in addition to other rights and remedies, be entitled to make drawdown on the Gas Supply Deposit equivalent to the amount shown in the invoice along with mark-up at the Delayed Payment Rate or suspend the supply of gas by giving three (3) Days written notice of suspension to the Buyer.”

During audit of PLL for the FY 2021-22, it was observed that the management failed to recover payment in respect of invoices raised by PLL on account of sale of RLNG from SNGPL. PLL management made a back-to-back contract with LNG suppliers in order to supply RLNG against firm demand raised by SNGPL. The impact of late payment received from SNGPL was transformed into liquidity problem for PLL and the company had also taken the issue at ECC level through Ministry of Energy (Petroleum Division). This resulted in non-recovery of trade debts of Rs 83,352.705 million from SNGPL.

Audit was of view that weak financial management resulted in non-recovery of trade debts of Rs 83,352.705 million from SNGPL causing liquidity issues.

The matter was reported to the management in September, 2022. PLL in its reply dated December 06, 2022 stated that the issue of delay in payments by SNGPL had already been taken with all stakeholders i.e. SNGPL, Ministry of Energy (Petroleum Division).

The DAC in its meeting held on December 28, 2022 directed the management to expedite the recovery and get it verified from Audit within one month. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1898]

#### ***2.7.4.4 Non-encashment of bank guarantee - Rs 12,763.413 million***

According to Section 14(b)(i) of Confirmation Notice “seller shall provide an irrevocable standby letter of credit for an amount equal to one hundred and five percent (105%) of the value of two. The Performance Guarantee shall be renewed annually no later than thirty days before the end of the relevant twelve-month period and shall continue to be in place to secure seller’s obligations under this confirmation notice until thirty days from the end of the two days scheduled delivery window referred to in paragraph 5 of this confirmation notice for the last cargo to be delivered here under”.

During audit of PLL for the FY 2021-22, it was observed that M/s Gunvor International B.V. provided a performance guarantee (SBLC No. HMB/SBLC/1500526/ 2021 dated March 01, 2021) of US\$ 53.82 million for a period of one year. The supplier failed to renew the performance guarantee on required

date i.e. January 30, 2022 but the management did not take action for encashment / renewal of performance guarantee till its expiry date despite the fact that M/s Gunvor started default from February, 2021 and declared occasional force majeure on January 14, 2022. On March 01, 2022 (the date of expiry at 03.30 pm) PLL had taken up the issue with the bank for encashment of performance guarantee, however, the supplier got stay orders from Sindh High Court and now the matter was subjudice. Delayed action resulted in non-encashment of performance guarantee of Rs 12,763.413 million (US\$ 53.82 million @ Rs 237.15).

Audit was of the view that due to weak financial control, the management failed to renew / encashment of performance guarantee timely despite the fact that supplier was defaulting from February, 2021.

The matter was reported to the management in September, 2022. In DAC meeting held on December 28, 2022 management explained that PLL asked supplier to renew the performance guarantee within stipulated time according to contract. However, supplier failed to renew the guarantee. PLL, therefore, encashed the guarantee before expiry of validity period. US\$ 53.82 million was remitted by Gunvor's bank and was lying with Habib Metro Bank Limited in Pakistan. However, before the amount could be transferred in PLL account, Sindh High Court granted a stay on transfer of money to PLL's account. The International Arbitration at LCIA had been started and was pursuing the matter with court.

The DAC directed the management to pursue the court case vigorously. DAC further directed to get the correspondence with supplier verified from Audit. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1895]

#### ***2.7.4.5 Non-recovery of LPS on delayed payments - Rs 11,872.408 million***

According to Section 9.5 of the initialed GSPA, if payment of any bill rendered by the seller to the buyer is not made by the due date, a late payment surcharge calculated at the default payment rate shall be applicable on any outstanding amount (one-month KIBOR plus two percent per annum, calculated

for the actual number of days which the relevant amount remains unpaid on the basis of 365 days).

During audit of PLL for the FY 2021-22, it was observed that SNGPL made payments on account of purchase of RLNG after due dates, however, the management of PLL did not claim LPS on these delayed payments. Further, the management did not show LPS in the financial statement/ ledgers. PLL management made a back-to-back contract with LNG suppliers in order to supply RLNG against firm demand raised by SNGPL and the impact of late payment received from SNGPL was transformed into a liquidity problem for PLL. This resulted in non-recovery of Rs 11,872.408 million during FY 2021-22 on account of LPS which was accumulated up to Rs 23,444.435 million as on June 30, 2022.

Audit was of view that weak financial management resulted in non-recovery of LPS on delayed payment. Similar nature paras were also pointed out in audit reports 2021-22 [Para No. 2.7.4.4] of Rs 4,464.953 million and 2020-21 [Para No. 2.7.5.6] of Rs 5,928.611 million.

The matter was reported to the management in September, 2022. PLL vide its reply dated December 06, 2022 stated that PLL had been taking up the issue of payment on account of Late Payment Surcharge with SNGPL since April, 2018. Subsequently, in response to PLL's letter dated March 21, 2019, SNGPL communicated that there was no agreement signed between PLL and SNGPL. Hence, claim of LPS by PLL was void and rejected in all respect. PLL continued to communicate the LPS amounts to SNGPL on a regular basis. However, no communication had been received from SNGPL regarding timeline for payment of such amounts. ECC in its decision dated October 02, 2019 had decided that Payment of LPS on delayed payments to be subjected to its receipt from the downstream consumers, based on the initialed GSPA.

The DAC in its meeting held on December 28, 2022 directed the management to reconcile the amount of LPS with SNGPL and get the amount recovered within a month. No further progress was reported till finalization of this report.

Audit recommends to expedite reconciliation and recovery of LPS on delayed payments.

[DP No. 1899]

***2.7.4.6 Non-removal of attachment of company bank accounts and withdrawal by FBR - Rs 3,149.870 million***

According to Section 140(I) of the Income Tax Ordinance, 2001, recovery of tax from persons holding money on behalf of a taxpayer for the purpose of recovering any tax due by a taxpayer, the Commissioner may, by notice, in writing, require any person to pay to the Commissioner so much of the money as set out in the notice by the date set out in the notice.

During audit of PLL for the FY 2021-22, it was observed that FBR issued an attachment notice on March 09, 2022 and recovered the amount of Rs 3,149.870 million from the PLL accounts on same day i.e. March 09, 2022. PLL got a stay order from the tribunal on March 10, 2022. This resulted in attachment of company's bank accounts and withdrawal of Rs 3,149.870 million.

Audit was of the view that negligence of the management resulted in non-removal of attachment of company's bank accounts and withdrawal of Rs 3,149.870 million by FBR.

The matter was reported to the management in September, 2022. PLL vide its reply dated December 06, 2022 stated that PLL filed a writ petition in the High Court to recover the amount. In judgement dated September 07, 2022, Islamabad High Court ordered FBR to refund the amount to PLL, initiate the inquiry against FBR officials for unlawful action, and barred FBR to take any such action in future against PLL. PLL was now pursuing implementation of Islamabad High Court Decision for recovery of the amount from the FBR.

The DAC in its meeting held on December 28, 2022 directed the management to pursue the case with FBR for recovery of amount. No further progress was reported till finalization of this report.

Audit recommends to take steps for early recovery of the amount withheld by FBR.

[DP No. 1901]

**Contract Management**

***2.7.4.7 Non-imposition of penalty on long-term suppliers - Rs 20,599.198 million (US\$ 87.732 million)***

According to Confirmation Notice with ENI & Gunvor International, seller shall deliver and buyer will take over one cargo in each month over the

entire contract period. According to Clause 17.2.3 of MSPA “in case of buyer being the non-defaulting party, where such event of default entitles buyer to any payment under the relevant Transaction or where a payment is delayed due to an event of default, buyer shall be entitled to withhold sufficient part payment, if any, until the event of default has been remedied under the relevant Transaction or, in its sole discretion, be entitled to claim or draw any amount due under the credit support document, if any, provided by seller under the relevant Transaction up to an amount equal to thirty percent (30%) of the contract price multiplied by the estimated contract quantity of the relevant cargo under a Transaction”. Further, according to clause 4.3.3 of MSPA “seller's liability amount shall not exceed an amount equal to thirty percent (30%) of the value of the relevant cargo that is seller's deficiency quantity multiplied by the relevant contract price all as set out in the applicable Confirmation Notice”.

During audit of PLL for the FY 2021-22, it was observed that in ten cases, long-term suppliers failed to provide term cargos to PLL, and the management did not impose a penalty of 30% cargo value for the period from January, 2021 to June, 2022 as required under the agreement. Further, according to BoD minutes of 131<sup>st</sup> meeting, PLL had reserved the right to claim price differential, however, the same was not claimed by the management. This resulted in loss of US\$ 87.732 million (Rs 20,599.198 million) approximately due to non-imposition of penalty.

Audit was of view that weak financial management resulted in non-action regarding imposition of penalty or withholding payment of long-term suppliers which resulted in blockage of revenue.

The matter was reported to the management in September, 2022. PLL vide its reply dated December 06, 2022 stated that in case of non-delivery by supplier, two options were available for the parties i.e. the volumes were either rescheduled, or a penalty of a maximum of 30% cargo value was claimed. For Gunvor's non-delivered LNG volumes, PLL was in arbitration at LCIA. PLL had been diligently trying to reschedule the non-delivered cargoes of ENI and would update the Audit of further developments.

The DAC in its meeting held on December 28, 2022 directed the management to pursue the case of rescheduling of cargo and get the penalty

recovered / verified from Audit. No further progress was reported till finalization of this report.

Audit recommends investigating the matter besides fixing the responsibility and strengthening the internal controls.

[DP No. 1902]

***2.7.4.8 Non-allocation of unutilized capacity to third party resulted in excess payment of Capacity Charges - Rs 5,574.329 million***

According to clause 9.4.1. of Operation and Services Agreement (OSA) “the parties acknowledge that in accordance with the LNG Policy at any time during the Term any other person may request, and the operator may, subject to any capacity available at the LNG Service Infrastructure and the necessary authorizations by the relevant competent authority, if any, have to provide to such person, certain services at and third-party access to (any part of) the LNG Services Infrastructure”. According to ECC decision dated July, 2020, third party access to LNG terminal for unutilized capacity is principally approved. Further, the PAC in its meeting held on August 25, 2021 directed “that the full capacity of two Terminals of 600 MMCFD each, total 12 hundred MMCFD should be utilized”.

During audit of PLL for the FY 2021-22, it was observed that the management of PLL failed to allocate unutilized capacity of Terminal-2 to third party. In compliance with decision of ECC, PLL invited applications for utilization of PLL’s unutilized capacity on September 21, 2021 & November 03, 2021 but no application was received. Under OSA, total physical capacity of FSRU was 750 MMCFD and PLL had 600 MMCFD Daily Delivery Capacity and 690 MMCFD Peak Daily Delivery Capacity. Non-allocation of average unutilized capacity of 236 MMCFD was resulting in continuous loss to government on account of excess payment of capacity charges of Rs 5,574.329 million (US \$ 23.505 million).

Audit was of the view that weak financial management resulted in excess payment of Capacity Charges due to non-allocation of unutilized capacity. Similar nature paras were also pointed out in audit reports 2021-22 [Para No. 2.7.4.5] of Rs 2,563.366 million, 2020-21 [Para No. 2.8.5.2] of Rs 11,364 million and 2019-20 [Para No. 2.7.6.6] of Rs 2,682.989 million.

The matter was reported to the management in September, 2022. PLL vide its reply dated December 06, 2022 stated that over the past years, PLL had undertaken 4 processes for utilization of unutilized capacity (out of its own Contracted Capacity) by private parties, however, no process was materialized due to no participation or incomplete application.

The DAC in its meeting held on December 28, 2022 directed the management to pursue the case with relevant forum vigorously. No further progress was reported till finalization of this report.

Audit recommends to expedite efforts for allocation of excess capacity to the third party besides improving financial controls.

[DP No. 1910]

***2.7.4.9 Non-imposition of penalty on account of seller's deficient quantity - Rs 276.327 million***

According to Clause 4.3.5 of MPSA read with Clause 4.3.2, upon seller's failure to deliver Seller's Deficiency Quantity (SDQ), the buyer shall issue to the seller an invoice for seller's liability amounts equal to costs, charges, losses, damages, expenses and liabilities associated with terminating or breaching the regasification arrangements. Moreover, according to Clause 4.2 of bid document, LNG cargo shall meet energy content (3,200,000 +/-5%) and volumetric quantity (140,000 m<sup>3</sup> -2% +5%) requirements, in accordance with the delivery schedule.

During audit of PLL for the FY 2021-22, it was observed that PLL management did not charge penalty/liquidity damages on two LNG suppliers in three cases in the event of discrepancies of deficient LNG quantity (2,258,120 MMBTU to 2,899,380 MMBTU) delivered than lower contractual limit i.e. 3,040,000 MMBTU (3,200,000 +/- 5%) for delivery different windows which caused loss of Rs 276.327 million to the national exchequer.

Audit was of the view that the high prices of LNG, gas shortage and other allied costs as a consequence of short quantity could not be avoided in this circumstance and PLL management failed to recover penalty related to low cargo volume. Similar nature para was also pointed out in audit reports 2021-22 [Para No. 2.7.4.9] of Rs 2,981.871 million.

The matter was reported to the management in September, 2022. PLL vide its reply dated December 06, 2022 stated that a strategy was being

formulated according to directions of the Board. The Board had further directed the management to obtain an opinion under English Law to substantiate PLL's claim further, with the matter to be presented to the Board again for further discussion. PLL would update further progress on Arbitration under LCIA, from time to time.

The DAC in its meeting held on December 28, 2022 directed the management to pursue the matter and recover the amount at the earliest. No further progress was reported till finalization of this report.

Audit recommends to implementation of decision of DAC.

[DP No. 1904]

***2.7.4.10 Irregular sale of RLNG to SNGPL without standby letter of credit (SBLC) and non-finalization of GSPA***

According to Clause 14(a)(i) of the Confirmation notice issued by M/s PLL, "buyer shall provide an irrevocable standby letter of credit "SBLC" for an amount equal to one hundred and five percent (105%) of the Cargo value of the first cargo to be supplied under the MSPA in US Dollars and substantially in the form of Appendix A to this Confirmation Notice from a scheduled bank with a long-term credit rating of at least AA from PACRA/JCR-VIS or equivalent form of a reputable international credit rating agency".

During audit of PLL for the FY 2021-22, it was observed that the management sold RLNG to SNGPL but did not obtain irrevocable SBLC or any other guarantee from SNGPL and did not finalize the Gas Sales and Purchase Agreement (GSPA). However, the company signed CN (Confirmation Notice) and MSPA (Master LNG Sales and Purchase Agreement) and provided irrevocable SBLC to its regular suppliers as well as to the suppliers for spot purchase of LNG. This resulted in irregular sales of RLNG of Rs 394,002.528 million to M/s SNGPL during 2021-22. Further, it was also revealed that the sale of RLNG in absence of any payment term, was also creating liquidity problems for M/s PLL. The Ministry of Energy (Petroleum Division) had also taken up the issue of liquidity requirement of M/s PLL with ECC for release of Rs 55 billion and Rs 150.5 billion in April, 2022 and June, 2022 respectively.

Audit was of the view that weak financial management resulted in sale of RLNG without obtaining of SBLC against committed quantity of LNG and non-

finalization of GSPA. Similar nature paras were also pointed out in audit reports 2021-22 [Para No. 2.7.5.7 of Rs 4,655.916 million.

The matter was reported to the management in September, 2022. PLL in its reply dated December 06, 2022 stated that PLL had been negotiating the GSPA with SNGPL, since December 2016, i.e., long before the start of LNG supplies from 2<sup>nd</sup> Terminal (in December, 2017). However, SNGPL had always remained reluctant to sign the agreement even though PLL showed its utmost flexibility on a number of terms and conditions to conclude the agreement. After a series of meetings and reminders, SNGPL continued to delay the execution of the GSPA on one pretext or another. RLNG was being supplied according to negotiated terms and PLL had been regularly updating the situation to Ministry and relevant quarters.

The DAC in its meeting held on December 28, 2022 directed the management to expedite the finalization of GSA and share the outcome with Audit. No further progress was reported till finalization of this report.

Audit recommends expediting the process of finalization of GSPA.

[DP No. 1897]

#### ***2.7.4.11 Non-finalization of long-term agreement for the supply of LNG and annual Procurement Plan***

PLL entered into a contract with M/s Gunvor International B.V. (Long-term supplier of LNG) for supply of LNG for 5 years (total of 60 cargos, 1 cargo in each month) in 2017 and original delivery date of last ship was July 01, 2022. The PAC during its meeting held on 25.08.2021 directed that “a comprehensive foolproof strategy / plan / mechanism must be devised to ensure timely availability of gas by maintaining continuous supply line by keeping in view the demand patterns”. PAC further directed that “detail strategy / mechanism to address the requirement of gas in the country generally and from November, 2021 to January, 2022, particularly, may be devised”. Moreover, the one board member also showed his concern on non-preparation of next 12 months’ forecast of LNG requirements by PLL. The Chairman of BoD also showed concern over increasing number of spot cargos every month and non-availability of firm demand from SNGPL.

During audit of PLL for the FY 2021-22, it was observed that management did not take steps for long-term contract in replace of M/s Gunvor's contract. M/s Gunvor International started to default from February, 2021 and in January 2022 declared force majeure vide email dated January 14, 2022 and failed to deliver last 6 ships. During 143<sup>rd</sup> meeting Board directed the management to take necessary steps to blacklist Gunvor International in accordance with applicable rules and laws. The supplier was defaulting since 2021 but the management failed to take steps for entering into agreements with other suppliers for long-term supply of LNG to ensure availability of gas in the country. During FY 2020-21 PLL procured 14 term cargoes at an average price of US\$ 9.423 and issued 11 tenders for 27 spot cargoes at an average price of @ US\$ 18.10 per mmbtu. The above difference clearly depicts that RLNG user had to pay approximately double price of LNG due to poor procurement management by PLL. Further, it was also observed that in compliance of directives of PAC/ Board members, the management did not finalize procurement plan. In absence of procurement plan spot procurement was made by invoking emergency clause, which ultimately increased the price of LNG for end users.

Audit was of the view that weak procurement management resulted in non-finalization of agreement for long-term supply of LNG. Similar nature para was also pointed out in audit reports 2021-22 [Para No. 2.7.4.2] of Rs 9,467.326 million.

The matter was reported to the management in September, 2022. PLL vide its reply dated December 06, 2022 stated that PLL could not enter into firm "take-or-pay" contract in the absence of firm demand from SNGPL, which PLL had not received. PLL was supposed to act on the demand figures provided to it by the downstream stakeholders. Once demand confirmation was provided to PLL, only then PLL was able to develop its strategy for how this demand was to be met.

The DAC in its meeting held on December 28, 2022 directed the management to ensure compliance of PAC directives dated August 25, 2021. No further progress was reported till finalization of this report.

Audit recommends to ensure compliance of PAC directives dated 25.08.2021 besides improving procurement management.

[DP No. 1912]

## **Ineffective Corporate Governance**

### ***2.7.4.12 Non-Compliance of Corporate Governance Rules by BoD***

According to Rule 4(2)(C) of Public Sector (Corporate Governance) Rules 2013 “the Chairman of the board shall ensure that all the directors are enabled and encouraged to fully participate in the deliberations and decisions of the Board. The chairman has a responsibility to lead the Board and ensure its effective functioning and continuous development, he shall not be involved in day-to-day operations of the Public Sector Company. Rule 5(6) and 5(7) of *ibid*, the Board shall adopt a vision or mission statement and corporate strategy, and formulate significant policies of the Public Sector Company. According to Rule 8 of *ibid* “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 PLL for the FY 2021-22, it was observed that the BoD and its four committees conducted 65 meetings, and remuneration of Rs 33.800 million was paid to the members. It was also observed that Pakistan Institute of Corporate Governance issued board performance evaluation report 2019-20 and advised to develop a long-term strategy and crisis management plan but annual evaluation of board by the Government and performance contract with board members did not find on the record. Further, the board involved in routine operations of the company e.g., approval of spot tendering process, finalization of spot procurement of LNG, PPRA exemption, loan facility from commercial banks, circular debt, non-finalization of GSPA with SNGPL, advise conducting a workshop on LNG procurement, authorization of signatories for signing SBLC/ loan from bank, authorization of Manager legal to negotiate lawyers for arbitration, and approval of BoD minutes of previous meetings, etc. During 2021-22, out of a total 45 meetings of BoD, 24 meetings were emergent, and in most of these emergent meetings routine items discussed. So, Rs 33.800 million paid as board meeting fee by the company was not justifiable. Some of the examples of BoD’s overarching role in PLL routine operations and failure to perform its designated functions are as under:

- i. In many meetings, the BoD directed the management to present agenda again in next meeting with proper analysis & recommendations;

- ii. Board did not make procurement policies like delegation of powers of procurement of LNG, time framework of LNG tenders w.r.t economic cost. In the absence of Procurement policy, every tender and procurement of LNG made with approval of Board and board awarded the spot cargos contract at high prices in contrast with its own earlier observation in 80th BoD meeting like an urgent tender would yield high prices due to less time between the award and delivery of cargo;
- iii. There were instances for procurement of LNG at high prices due to non-finalization of GSPA with SNGPL. BoD comprised of representatives of both Power and Petroleum Divisions to have rational demand forwarded by Power Division to SNGPL under Petroleum Division and to make sure supply of LNG. However, despite representation of demand as well as supply side of the LNG regime, there had been irregular demands submitted by the stakeholders, and procurement of LNG had been delayed and costly;
- iv. BoD failed to allocate the excess capacity to third party in contravention of the ECC decision dated July, 2020; and
- v. Board did not hold its members and its Board Committee's members accountable for the number of meetings took place and the quality of the output from those meetings.

This non-compliance of Rules, effecting the efficiency of the company operations adversely. The BoD did not delegate powers to the management and which result that every day-to-day business affair of the company required approval of BoD. Further, the management failed to present true and full picture to the BoD, so that the BoD may able to decide the matter and meetings on the same issue again and again waste the time of Board members.

Audit was of the view that poor governance resulted in non-compliance of Corporate Governance Rules.

The matter was reported to the management in September, 2022. PLL vide its reply dated December 06, 2022 stated that, in accordance with Public Sector Governance Rules, Government of Pakistan had asked for an independent evaluation of Board to be carried out by Pakistan Institute of Corporate Governance. The report of prior year was already shared with Audit. While for

current year evaluation was under process. Audit contended that that the BoD was involved in day-to-day business of the company in violation of Public Sector (Corporate Governance) Rules 2013. Further, Federal Government failed to enter into performance contract with board members and failed to conduct performance evaluation of chairman and members of board by the government.

The DAC in its meeting held on December 28, 2022 directed the management to submit a comprehensive reply addressing all the points raised by Audit within a week. No further progress was reported till finalization of this report.

Audit recommends to implementation of the decision of DAC besides taking up the matter with Federal Government for performance evaluation of members of Board and execution of performance contracts with board members.

[DP No. 1905]

## **HR / Employees Related Irregularities**

### ***2.7.4.13 Non-transparent / irregular recruitment of staff - Rs 40.795 million***

According to recruitment criteria of PLL, Associate HR along with a member of the User Department shall be responsible for the collection and initial screening of personal information forms along with attached CVs and shall prepare a long list of candidates that fulfill the criteria advertised. The long list shall be shared with the Shortlisting Committee, which shall then shortlist the most suitable candidates as per required criteria. HR Department shall carry out reference checks once the offer is accepted by the employee to ensure that educational documents and past experience provided by the job applicant are correct and factual.

During audit of PLL for the year 2021-22, it was observed that management made appointments to the posts of Assistant Manager (Sales & Marketing), Executive Secretary and Admn. Assistant during 2016-18. Audit observed the following discrepancies in the recruitment process:

<b>Name of post</b>	<b>Remarks</b>	<b>Pay and allowances drawn</b>
Assistant Manager	Total 392 candidates applied for the post and 166 candidates shortlisted. Five candidates were further	23.216

(Sales & Marketing	shortlisted without mentioning of names of shortlisted candidates and authorization. No basis for further shortlisting was provided. Two candidates appeared for interview but interview panel awarded marks to five candidates. Bogus experience certificates were submitted	
Executive Secretary	Four applicants were shortlisted out of which three candidates were Master Degree holders. The qualification of selected candidate was B.A (Library Science). The interview panel awarded higher marks for qualification and experience to candidate having B.A qualification as compared to candidate having higher qualification. Further, PER of official for 2018 was N-2 (performs at minimum level). On 11 <sup>th</sup> April 2019, she was served a written warning for poor performance. However, the PER for the period ended on 30.06.2019 was marked at 77%. Undue favour was granted to avoid termination from service on two consecutive poor PERs.	9.671
Admn Assistant	Total 273 candidates applied for the post mostly having Master Degrees with sufficient experience. However, the consultant reported that the advertisement evoked a good response in term of quantity but generally the quality of the applicants was not up to the expectations. The name candidate was added by the consultant and subsequently recruited as Assistant Admin. The whole academic career of official was 3 <sup>rd</sup> Division.	7.908
<b>Total</b>		<b>40.795</b>

Audit was of the view that poor HR management resulted in violation of principles of transparency in recruitment process.

The matter was reported to the management in December, 2022. The management in its reply dated January 13, 2023 stated that in 1<sup>st</sup> case, the candidate was serving in SNGPL Lahore therefore, he could not attend the interview in person and requested for online interview. Employee reference check of SNGPL was conducted in 2019. In 2<sup>nd</sup> case, interview for the post was conducted by three members committee including a BoD member, a representative from ministry and Chief Operating Officer. Based on the

candidate's qualification and experience, she was recommended for appointment. In 3<sup>rd</sup> case, 10 candidates were shortlisted by the recruiter. After preliminary screening, 5 candidates were called for interview and official was recruited through open and transparent manner. Reply was not tenable as undue favour was granted to candidates appointed by ignoring the principle of merit and transparency.

DAC in its meeting held on January 19, 2013 directed the Petroleum Division to conduct fact finding inquiry, fix responsibility and share the outcome with Audit. DAC further directed that the TORs of the inquiry should include analysis and justification of amount paid to consultant. No further progress was intimated till finalization of this report

Audit recommends to implement the decision of DAC.

[DP Nos. 2311, 2313 & 2315]

***2.7.4.14 Irregular promotion to higher grade in violation of prescribed procedure - Rs 23.259 million***

According to Promotion Policy of PLL, the promotion selection committee of Grades E-IV and V shall comprise of MD & CEO, Head of Department, Head of HR Department and any other coopted member by the MD & CEO. Employees shall be encouraged to review all job vacancies circulated to each department and disseminated through other media. It shall be company policy to provide internal employment opportunities to qualified candidates through intradepartmental and interdepartmental promotion wherever possible. Further, according to procedure of promotion laid down in HR Manual, based on employees' performance appraisals, the respective HoD shall prepare a list of employees entitled for promotion and forward the same to Head of HR. the Head of HR shall review the recommendations of respective HoD and assess if the positions or grade is available for employees to be promoted. The HoD shall confirm the availability against the promotion list and forward the promotion note to and Selection Committee for assessment. The selection committee shall assess promotion recommendations against approved criteria and provide their input. The MD & CEO shall approve employee promotion by signing the promotion memo and shall forward the same to HR department for issuance of approved promotion memo.

During audit of PLL for the FY 2021-22, it was observed that 15 officers were promoted to higher grades. An amount of Rs 23.259 million was paid to the employees on account of incremental benefits. The vacancies were not circulated to different departments to encourage qualified employees for intradepartmental and interdepartmental promotions. No list of employees, entitled to promotion was prepared by the respective HoD and forwarded to HR Department. The promotion selection committee was not constituted for assessment of the promotion cases of employees. The HR department submitted the case for promotion of employees to MD who on same date approved the proposal and notify the promotion on the basis of psychometric / potential assessment test. Three Officers were promoted even before the psychometric / potential assessment test. Five officers were promoted on the same date when the psychometric / potential assessment test was conducted. Two officers were promoted to higher posts even before completion of their initial contract period. Further, two officers were promoted despite the fact that inquiry against them was pending and the same fact was concealed in the note submitted for promotion.

Audit was of the view that undue benefits were granted to the officers by promotion to higher grade without observing the prescribed procedure.

The matter was reported to the management in December, 2022. The management in its reply dated January 13, 2023 stated that all officers were promoted to the next grade met the criteria of the job as per promotion policy of PLL HR Manual. The vacancies were not circulated to different departments in PLL as there was not enough staff who was competing for same position. As there was no overlapping, therefore, promotion posts were not circulated. Further, detailed investigation was also carried out by PLL assessing the system in place which was communicated to the M/s FGE. The reply was not tenable as promotions were made without observing the procedure lay down in HR Manual and no inquiry report was shared with the Audit.

DAC in its meeting held on January 19, 2022 directed the Petroleum Division to conduct fact-finding inquiry, fix responsibility and share the outcome with Audit. No further progress was intimated till finalization of this report

Audit recommends to implement the decision of DAC.

[DP Nos. 2312 & 2314]

## **2.8 Other Organizations**

This chapter includes paras in respect of Pakistan Mineral Development Corporation Private Ltd. (PMDC), Interstate Gas Systems (ISGS) and ENAR Petrotech Services Private Ltd. (ENAR).

### **2.8.1 Pakistan Mineral Development Corporation Private Ltd.**

#### **2.8.1.1(A) Introduction**

PMDC was established in 1974. PMDC is the only federal entity engaged in prospecting, exploration, evaluation, mining, and marketing of minerals in the country. PMDC gets exploration licenses and mining leases from the respective Provincial Governments. It undertakes all activities, from prospecting to the marketing of the minerals, in competition with other public and private sector mining companies. The assets of West Pakistan Industrial Development Corporation of Pakistan and following companies were transferred to PMDC vide Production Division's letter No. Admn-1(23)/74 dated July 1, 1974.

<b>Sr. No.</b>	<b>Name of Projects</b>	<b>Sr. No.</b>	<b>Name of Projects</b>
1	Makerwal Collieries Ltd. Makerwal	8	Development of Central block Sor Range
2	Rock Salt Quarries, Bahaderkhel & Karak	9	Development of Degari Coal Mines
3	Salt Mines, Khewra	10	Salt Mines, Warcha
4	Salt Mines, Kalabagh	11	Rock Salt Quarries, Jatta
5	Development of Sharigh Coal Mines, Sharigh	12	Exploration & Development of Ruby Deposits in Hunza Area, Gilgit Agency
6	Mineral Development Program, Punjab	13	Mineral Development Program, N.W.F.P
7	Mineral Development Program, Sindh		

#### **(B) Comments on Audited Accounts**

The financial statements of the company for the year 2021-22 have not been provided by the management due to non-approval from BoD.

### 2.8.1.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 2,982.555 million were raised in this report during the current audit of PMDC. This amount also includes recoverable amount of Rs 59.286 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

#### Over view of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	
A	Project Management	70.400
B	Contract Management	352.713
C	HR Related Issues	56.299
D	Poor Assets Management	18.465
2	Others	2,484.678

### 2.8.1.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
2006-07	5	4	1	80
2009-10	1	0	1	0
2010-11	10	10	0	100
2011-12	15	5	10	33
2012-13	4	1	3	25
2013-14	5	4	1	80
2014-15	14	3	11	21
2015-16	7	1	6	14
2016-17	9	7	2	78
2017-18	4	4	0	100
2018-19	1	1	0	100
<b>Total</b>	<b>75</b>	<b>40</b>	<b>35</b>	<b>53</b>

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

## **2.8.1.4 Audit Paras**

### **Project Management**

#### ***2.8.1.4.1 Loss of revenue due to closure of MI 6 mine at Mari Section - Rs 70.400 million***

According to Section 19(2) of Mine Act, 1923 if the Chief Inspector or an Inspector authorized on his behalf by general or special order in writing by the Chief Inspector is of the opinion that there is urgent and immediate danger to the life, health or safety of any person employed in any mine or part thereof, he may, by an order in writing containing a statement of the grounds of his opinion, prohibit, until the danger is removed, the employment in or about the mine or part thereof any person whose employment is not in his opinion reasonably necessary for the purpose of removing the danger.

During audit of PMDC for the FY 2021-22, it was observed that the management did not follow safety and environmental measures in respect of Mine No. MI-6 at Salt Mine, Kalabagh. On January 23, 2021 Inspector of Mines (Sargodha Region) inspected and ceased the mine with immediate effect on account of being unsafe and imminent danger to worker's safety and life. In response, PMDC filed an appeal on February 03, 2021 and April 19, 2022 before the Chief Inspector of Mines, Punjab and submitted a development scheme to rectify the violations. On April 28, 2022 Inspecting Officer visited the mine and para wise report submitted by PMDC found satisfactory. The Chief Inspector of Mines Punjab cancelled the Order/Notice of Inspector of Mines, Sargodha Region dated January 25, 2021 and allowed PMDC to start mining operations by adopting best practices subject to certain conditions in order to save the precious lives of mine workers. Closure of mine resulted in loss of revenue amounting to Rs 70.400 million (average production of 88,000 metric tons at the sales price of ROM, Rs 800 per ton) besides unemployment of workers and also loss to other allied stakeholders.

Audit was of the view that due to weak safety controls the mines was closed for a long period about 465 days and resulted in loss of Rs 70.400 million to the company.

The matter was reported to the management on September 30, 2022. In DAC meeting held on December 27, 2022 the management explained that mine

was closed on the orders of Inspectorate of Mines Punjab on January 23, 2021 by highlighting some issues. An appeal was filed against the orders but the same remain pending despite repeated efforts. Hence, production remain suspended till May, 2022. The reply of the management was not tenable as the management did not take up the matter with Ministry of Energy (Petroleum Division) for closure of mines.

The DAC directed the Petroleum Division (DG (Minerals)) to take up the matter with Provincial Government for devising a mechanism regarding time frame for addressal of appeals. DAC further directed the management to ensure safety measures to avoid stoppage of production.

Audit recommends to implement the decision of DAC.

[DP No. 1866]

***2.8.1.4.2 Non-existence of internal control at salt mines of Mari Indus Section of Kala Bagh project***

According to Section 153 (1) & 229 of the Punjab Mining Concession Rules, 2002 a licensee or a lessee shall, at all times, keep in the form prescribed by the Licensing Authority, complete record at the mine premises, showing the quantity of the minerals obtained and dispatched from the mines on the authenticated register issued by it or its authorized representative. The minerals excavated from any licensed or leased area shall be dispatched from the area on the prescribed dispatch slips duly authenticated by the Licensing Authority or its authorized representative, provided that dispatch slips shall indicate the date, license/lease No., name of the buyer, vehicle No., the quantity of mineral and its destination.

During audit of PMDC for the FY 2021-22, it was observed that there were no internal controls existed at Mari Indus Section of Kala Bagh project in 20 operational mines. The average production was 300 metric tonnes of salt and the lease expand about 25 acres. The following discrepancies were observed:

- i. There was no weighing station, sitting arrangements for quality checker, mining sardar and official deputed to complete the prescribed record;
- ii. The record pertaining to sales / production, inspection books, attendance register of workers & visitors and other ancillary items like batteries,

helmets and first aid kits were placed in trunk which were against the HSE requirements;

- iii. There was only one contingent employee deployed as Quality Checker and Time Keeper for the entire section;
- iv. The salt was weighed at Weigh Bridge situated about 6 km away from the depot and the route to the weighing spot was quite busy and there were other routes leading from that road. The possibility of loss or in route pilferage / theft cannot be ruled out; and
- v. MD-8 slip was filled by Time Keeper at weighment station although he was neither provided any vehicle by management nor was given the facility of POL.

Audit was of the view that inaction on part of the management resulted in weak monitoring and non-existence of internal control systems.

The matter was reported to the management on September 30, 2022. In DAC meeting held on December 27, 2022 the management explained that Mari section was on exploration stages due to which proper infrastructure was not constructed. Currently the project management had proposed an amount of Rs 10 million for installation of weigh-bridge and Rs 1 million for construction of infrastructure.

The DAC directed the management to get the record relating to production and sale reconciled from Audit within a week. No further progress was reported till finalization of this report.

Audit recommends strengthening the internal controls and provide the production & sales record of Mari section to Audit for reconciliation besides installation of weigh-bridge and infrastructure at earliest.

[DP No. 1867]

## **Contract Management**

### ***2.8.1.4.3 Illegal production of minerals due to non-renewal / tendering of agreements with raising contractors - Rs 342.191 million***

According to O.M No: PMDC/EST-143 dated June 12, 2014 initial period of contract will be 5 years from signing of agreement and the agreement

would be terminated after 2 years if no development work is carried out to the satisfaction of the PMDC. On satisfactory performance and development/drivage of mines according to plan extension will be allowed for further 5 years on the completion-of initial five years contract-period. On satisfactory performance and achieving production targets, contract period will be extended for further 2 years. However, total period of the contract from start of commercial production will not exceed 12 years.

During audit of PMDC for the FY 2021-22, it was observed that the management neither renewed expired the terms / agreements with raising contractors nor new tenders were floated for award of contracts to new raising contractors despite the lapse of more than 12 years from the start of commercial production. This resulted in illegal production of minerals amounting to Rs 342.191 million by the raising contractors without having any valid contract.

Audit was of the view that due to negligence of management the expired agreements had not been renewed and resulted in illegal production of minerals.

The matter was reported to the management on September 30, 2022. In DAC meeting held on December 27, 2022 the management explained that after expiry of contracts, tenders were invited. However, in certain cases, the bids were declined being higher or failed to meet the procedural requirements. For the intervening period, the mines were being operated at departmental rates to avoid fall in the production. Reply was not tenable as the tender process should be started well before the expiry of the agreements.

The DAC directed the management to get the stated stance verified from Audit within a week. No further progress was reported till finalization of this report.

Audit recommends to complete the process of renewal / bidding to raising contractors besides fixing responsibility for defiance to the Rules / SOPs.

[DP No. 1873]

#### ***2.8.1.4.4 Non-receipt of security deposits from the contractors - Rs 10.522 million***

According to O.M No. PMDC/EST-143 dated June 12, 2014 initial period of contract will be 5 years from signing of agreement and the agreement would be terminated after 2 years if no development work is carried out to the

satisfaction of the PMDC. Further, according to Article 3.6 of raising/excavation and hauling contract document during the currency of contract, if 2<sup>nd</sup> party (raising contractor) stops work without any cogent reason and approval of the first party (PMDC) for continuous one month the contract will be cancelled without any notice.

During audit of PMDC for the FY 2021-22, it was observed that the management signed agreements with raising contractors to excavate the minerals without security deposits. No development work had been started by the contractor despite lapse of more than two years. The management did not take any action to terminate the contracts. This resulted in non-receipt of security deposits amounting to Rs 10.522 million and undue favour to contractors.

Audit was of the view that due to negligence of management and poor internal controls, the security deposits had not been received and the mines were not retendered to any other contractor.

The matter was reported to the management on September 30, 2022. In DAC meeting held on December 27, 2022 the management explained that 25 mines were allotted for excavation work and cancelled subsequently. The security money was not received due to reasons that at initial stage, the applicants were used to allow the development work at his own cost. The infrastructure was developed by the investor himself. In case of non-initiation of work, the allotments were cancelled. The reply of the management was not tenable as allotment of mines without obtaining the security deposits was a clear violation of PPRA Rules.

The DAC noticed that non-receipt of security deposits was a gross violation of PPRA Rules. The DAC directed the management to provide the details of mines which were developed without obtaining security deposit. DAC further directed the Petroleum Division to conduct fact finding inquiry in the matter and share report within two months.

Audit recommends to implement the decision of DAC.

[DP No. 1874]

## **HR Related Issues**

### ***2.8.1.4.5 Discrimination and disparity in relation to pension scheme and medical facility among retire officers/supervisors and staff***

According to Article 25 (1) of Constitution of Islamic Republic of Pakistan, 1973 all citizens are equal before law and are entitled to equal protection of law.

During audit of PMDC for the FY 2021-22, it was observed that the officers /supervisors were the members of Pension Fund Trust and received pension while the clerical staff and class-IV employees were deprived from the pension since 1986. The officers and supervisors were getting commutation and monthly pension while staff was paid only one time gratuity upon retirement. An amendment in Trust Deed was made on September 25, 2009 regarding 100 % payment of pension benefits to members. It was worth mentioning that the BoD in its 118<sup>th</sup> meeting held on September 02, 2008 approved 20% increases in monthly pension w.e.f July 01, 2008 and in its next meeting approved the proposal of 100% pension i.e. to get the pension in one go. Further, the Board in its meeting held on October 30, 2010 decided to grant post-retirement medical facility to officers / supervisors within the ceiling of Rs 2,500 per month and currently this amount was Rs 8,000 per month. Consequently, class-IV and lower staff were deprived of pension and medical facility which resulted in discrimination among employees of same organization and it could lead to demotivation and inefficiency.

Audit was of the view that due to undue favour to officer / supervisor cadre by management resulted in discrimination and disparity among employees.

The matter was reported to the management on September 30, 2022. In DAC meeting held on December 27, 2022 the management explained that the matter was sub-judice in the Islamabad High Court. The last date of hearing was April 27, 2022. The next date was in office.

The DAC directed the management to pursue the court case vigorously.

Audit recommends to pursue the court case besides removing the discrimination & disparity by extending post-retirement benefits to all employees on equitable basis.

[DP No. 1868]

***2.8.1.4.6 Non-insurance and non-deposit of EOBI contribution of contingent and mining workers – Rs 30.299 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 employees are employed, shall be insured in the manner prescribed under this Act. Further, according to Circular No. 01/2015-16 dated March 01, 2016, the employer's share of contribution is 5% and employee's share of contribution is 1% of minimum wages per month.

During audit of PMDC for the FY 2021-22, it was observed that there were 428 contingent labourers, and staff working in the company. The management neither insured / enrolled the workers with EOBI nor was contribution of employer and employees deposited with EOBI, thus depriving the workers from retirement benefits. This resulted in non-insurance / non-deposit of EOBI contribution amounting to Rs 30.299 million.

Audit was of the view that due to weak financial control, management failed to insure contingent employees with EOBI.

The matter was reported to the management on September 30, 2022. In DAC meeting held on December 27, 2022 the management explained that BoD in its 196<sup>th</sup> and 197<sup>th</sup> meeting held on July 10, 2020 and October 07, 2020 respectively approved new organogram of PMDC and approved 426 contingent posts to 3<sup>rd</sup> party contractor. Tenders were floated for hiring of manpower outsourcing services firms for contingent employees. However, contingent employees filed case in National Industrial Relation Commission. The matter was sub-judice in NIRC. The reply of the management was not tenable as the matter of EOBI was not sub-judice in any court of law.

The DAC directed the management to deposit the EOBI Contribution and share the outcome with Audit. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1875]

#### ***2.8.1.4.7 Non-regularization of contingent workers despite decision of National Industrial Relations Commission Islamabad (NIRC)***

According to Rule 5 (11) of Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall ensure compliance with the policy directions from Government from time to time. Further, according to the NIRC decision dated March 11, 2022 Petition No. 4B (131)/2021, the instant petition has been accepted partially, the petitioners are declared permanent employees of the respondent establishment.

During audit of PMDC for the FY 2021-22, it was observed that PMDC appointed 428 contingent workers during the years 2015 to 2017. These employees completed their probationary period successfully and were given extensions from time to time. Later on, these employees filed a writ petition in NIRC for regularization of their services and to make their employment status as permanent. According to the NIRC decision dated March 11, 2022 the instant petition was accepted partially, the petitioners were declared permanent employees of the respondent establishment. The decision of NIRC was not implemented till date. It was worth mentioning that most of the contingent workers were working against regular posts.

Audit was of the view that slack pursuance by HR department resulted in non-compliance of decision of NIRC.

The matter was reported to the management on September 30, 2022. In DAC meeting held on December 27, 2022 the management explained that the matter was sub-judice in Islamabad High Court. The last date of hearing was November 25, 2022 and the next date of hearing was January 10, 2023.

The DAC directed the management to pursue the court case vigorously.

Audit recommends to pursue the court case vigorously.

[DP No. 1883]

#### ***2.8.1.4.8 Undue grant of interest free HBA to the employees - Rs 26 million***

According to Rule 44 of PMDC Employees Service Rules, 2012 in case these Rules are silent on certain subject, the relevant Government Rules may be followed. Further, according to General Provident Fund (Federal Services) Rules 2017, Government servant can avail the facility of interest free loan(s) such as

House Building, Motor Car / Motorcycle advance from Government if he does not claim interest on his G.P Fund Balance.

During audit of PMDC for FY 2021-22, it was observed that the management granted undue benefit by allowing interest free house building advance to ten officers recoverable in 150 equal instalments. The officers / officials were receiving interest on CPF balances. Further, the management issued house building advance policy and got approval from the Board in its 198<sup>th</sup> meeting held on October 27, 2020 without getting concurrence from Finance Division. This resulted in irregular interest free house building advance to employees amounting to Rs 26 million.

Audit was of the view the employees were entitled to interest on their CPF balances hence, they should pay interest on loans in line with Federal Government practice in vogue.

The matter was reported to the management on September 30, 2022. In DAC meeting held on December 27, 2022 the management explained that the BoD in its 198<sup>th</sup> meeting approved the policy of interest free HBA. The reply of the management was not tenable as the BoD cannot formulate any policy in contradiction with the Government instructions.

DAC noticed that BoD cannot formulate any policy in contradiction with the instructions of Government. The DAC directed the management to recover the interest on HBA from concerned employees. No further progress was reported till finalization of this report.

Audit recommends to implement the recommendations of DAC besides to formulate the policy according to instructions of Government.

[DP No. 1888]

## **Poor Asset Management**

### ***2.8.1.4.9 Blockage of revenue due to non-auction of unserviceable items – Rs 18.465 million***

According to revised delegation of financial powers approved by the PMDC Board of Directors that the Managing Director has full powers regarding auction of condemn stores.

During audit of PMDC for the FY 2021-22, it was observed that the Board approved estimated budget of unserviceable items Rs 19.500 million to dispose of through auction. However, only items valuing Rs 1.035 million could be auctioned. The unserviceable items worth 18.465 million were not auctioned. This resulted in the blockage of revenue amounting to Rs 18.465 million due to non-auction of unserviceable items.

Audit was of the view that due to negligence of management and poor financial controls the unserviceable items worth Rs 18.465 million could not be auctioned.

The matter was reported to the management on September 30, 2022. In DAC meeting held on December 27, 2022 the management explained that auction could not be held at Balochistan Collieries due to Law and Order situation.

The DAC directed the management to expedite the auction process and share the outcome with Audit. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC.

[DP No. 1876]

## **Others**

### ***2.8.1.4.10 Non-constitution of Board of Directors***

According to Clause 158 (1) (b) of Companies Act, 2017 in case of subsequent directors on expiry of term of office of directors mentioned in Section 161, shall stand retired from office and the directors so retiring shall continue to perform their functions until their successors are elected.

During audit of PMDC for the FY 2021-22, it was observed that there was no Board formed for the Company since April 04, 2022. The Cabinet approved restructuring of the Board of Directors of PMDC w.e.f. April 05, 2019 for a period of three years. The term of BoD expired on April 04, 2022. Even in its last two meetings 219<sup>th</sup> and 220<sup>th</sup> before the expiry of the term of BoD dated March 03, 2022 & April 04, 2022. The matter of subsequent constitution of the Board of Directors was not included in the agenda items. Major decisions were

taken without approval of BoD which could pose serious threat on protecting the company's shareholders' interests and its going concern.

Audit was of the view that non-formation of Board of the Corporation resulted in non-compliance of Companies Act and Corporate Governance Rules in addition to hamper the policy decisions and smooth running of the corporation.

The matter was reported to the management on September 30, 2022. In DAC meeting held on December 27, 2022 the management explained that matter had been taken up with the Petroleum Division for seeking advice as to whether the BoD should stop functioning from the maturity date or continue its work till the appointment of new Board. New panel had been finalized and was being submitted for the approval of Cabinet. During the interim period, no decisions relating to policy matters were made which require the approval of BoD.

The DAC directed the management to pursue the matter with relevant forum for early constitution of BoD and share the outcomes with Audit. No further progress was reported till finalization of this report.

Audit recommends to implement the decision of DAC

[DP No. 1870]

#### ***2.8.1.4.11 Inadmissible investment of surplus funds - Rs 2,484.678 million***

According to Clause 3 (b) of Finance Division vide OM No. F4(1)/2002-BR.II dated July 02, 2003 prior to placing the deposits with a bank under this new policy, and in case the total working balances exceed Rs 10 million, the selection of the bank/(s) as well as the terms of deposits will be approved by the concerned Board of Directors/Governing Body on the basis of competitive bids from at least three independent banks. Further, the working balance limit of each organization should be determined with the approval of the administrative ministry in consultation with Finance Division. The account of this working balance may be maintained in a current or savings bank. Furthermore, the investment more than Rs 10 million of the investment committee will be subject to approval of the BoD.

During audit of PMDC for the FY 2021-22, it was observed that the term of the Board of Directors had expired on April 04, 2022 and exiting Board failed to constitute a new Board. Since then the PMDC was functioning without a

Board and its Committees till date. While investing the surplus funds in the bank, approval from the Investment Committee of Board was necessary, which was not sought due to the absence of any Board / Committees. Therefore, during the period in which PMDC was running without any investment Committee of the Board all the investment decisions were taken without approval of the Committee were inadmissible. This resulted in inadmissible investment amounting to Rs 2,484.678 million in various banks for profit.

Audit was of the view that the management made inadmissible investment of surplus funds without approval of investment committee of the Board.

The matter was reported to the management on September 30, 2022. In DAC meeting held on December 27, 2022 the management explained that surplus funds had been invested according to instruction of Finance Division and investments had been made in the best interest of corporation and the same would be ratified from the Board. Reply of the management was not tenable as the investment was made without approval of Investment Committee of BoD.

The DAC directed the management to refer the matter to Petroleum Division to take appropriate action.

Audit recommends to implement the decision of DAC

[DP No. 1887]

## 2.8.2 Inter State Gas System (ISGS)

### 2.8.2.1(A) Introduction

Interstate Gas System (Private) Limited (ISGS) was incorporated / established on August 04, 1996 under the Companies Ordinance 1984 (now Companies Act 2017) as a Private Limited Company. The company was formed as a joint venture of SSGC and SNGPL with a direct shareholding of 51% and 49% respectively. Pursuant to subscription agreement, the company issued further shares to GHPL making GHPL, shareholding to 100% of total paid up capital.

The company entered into a Services Agreement with SNGPL and SSGC which was effective from July 01, 2003 whereby the company was required to ascertain, identify and advise to SSGC and SNGPL on most convenient and reliable resources of natural gas which can be imported. Currently, the operations of the company are carried out in connection with the services agreement and therefore, the company is allowed to recover its revenue expenditure within the permitted expenditure as specified in the service agreement, from SSGC and SNGPL and under the ECC guidelines.

The financial position of ISGS for the year 2020-21 as compared to previous years are as under:

	2020-21	% Inc/(Dec)	2019-20	% Inc/(Dec)	2018-19
Revenue	-	-	-	-	-
Administrative Expenses	(203.828)	(29.69)	(289.897)	41.10	(205.46)
Operating profit/(loss)	-	(29.69)	-	41.10	(205.46)
Other income	8.213	(97.36)	311.659	767.89	35.91
Financial Cost	(135.833)	10.19	(123.271)	275.50	70.24
Impairment loss on capital work in progress	-	-	-	-	216.83
Share of loss from associate- net of taxation	(20.781)	4.17	(19.949)	(149.48)	40.32
Net (loss) profit before taxation	(352.229)	190.00	(121.458)	75.56	(496.94)

(Source: Annual Audited Accounts)

## **(B) Comments on Audited Accounts**

The financial statements of the company showed that company did not generate any revenue in 2020-21.

### **2.8.2.2 Classified Summary of Audit Observations**

Audit observations amounting to Rs 308.885 million were raised in this report during the current audit. This includes recoverable amount of Rs 115.299 million as pointed out by Audit. Summary of the audit observations classified by nature is as follows:

(Rs in million)		
Sr. No.	Classification	Amount
1	Irregularities	
A	Accounting Errors and Omissions	135.000
B	Financial Management	173.885
2	Others	-

### **2.8.2.3 Compliance with PAC Directives**

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
2012-13	03	03	0	100
2013-14	08	03	05	38
2014-15	05	02	03	40
2015-16	07	06	01	86
2016-17	02	02	0	100
2017-18	01	01	0	100
<b>Total</b>	<b>26</b>	<b>17</b>	<b>09</b>	<b>65%</b>

The overall compliance of PAC directives needs to be improved.

## **2.8.2.4 Audit Paras**

### **Accounting Errors and Omissions**

#### ***2.8.2.4.1 Non-recognition of technical assistance grants of ADB for feasibility study of gas storage development system under IAS 20-Rs 135 million***

According to Para 7 of IAS 20 Government grants, including non-monetary grants at fair value, shall not be recognized until there is reasonable assurance that (a) the entity will comply with the conditions attaching to them; and (b) the grants will be received. Further, according to Para 39 of the IAS ibid the following matters shall be disclosed: (a) the accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements; (b) the nature and extent of government grants recognized in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited; and (c) unfulfilled conditions and other contingencies attaching to government assistance that has been recognized.

During audit of ISGS for the FY 2021-22, it was observed that Asian Development Bank agreed to assist the Islamic Republic of Pakistan with technical assistance of US\$ 600,000 as on July 26, 2019 for the consultancy services for Bankable Feasibility Study and Transaction Advisory Services for the development of Strategic Underground Gas Storage (SUGS). The Central Development Working Party approved the PC-II as on May 27, 2021 for the hiring of consultancy services for Bankable Feasibility Study and Transaction Advisory Services for the development of Strategic Underground Gas Storage (SUGS). ADB entered into agreement as on September 07, 2020 with M/s RAMBOL DANMARKA/S (RDK) Denmark for lump sum amount of US\$ 599,568. But the management of ISGS did not recognize the technical assistance in its books of accounts nor was its impact shown in financial statements for the financial years 2020-21 & 2021-22. This resulted in non-recognition of technical assistance grant of ADB for feasibility study of gas storage development system under IAS 20 amounting to Rs 135 million (US\$ 600,000 \* Rs 225).

Audit was of the view that weak internal controls resulted in omission relating to recognition of technical assistance grant amounting to Rs 135 million in the books of accounts.

The matter was reported to the ISGS management in November, 2022. The management in its reply dated December 02, 2022 stated that under IAS 20, the entity must disclose the nature and extent of such grants. The matter had been discussed with our external auditors and they had recommended representing a disclosure of ADB grant on account of study on Under Ground Storage Project in the Financial Statements for the FY 2021-22 according to Para 39 of IAS-20. The management had agreed with the stance of Audit.

The DAC in its meeting dated December 29, 2022 directed the management to recognize the amount in books of accounts and share the audited financial statements for the year 2021-22 for verification of Audit within a week. No further progress was reported till finalization of the report.

Audit recommends to implement decision of DAC besides ensuring adequate disclosure of grant in financial statements.

[DP No. 2056]

## **Financial Management**

### ***2.8.2.4.2 Non-resolution of loan repayment issue with GHPL resulting in incurrence of recurring loss - Rs 58.586 million***

According to directions of ECC dated December 15, 2016 GHPL and ISGS entered into an agreement dated August 09, 2018 to fund all expenditure on the Government mandated projects being undertaken by the ISGS. The loan shall carry an interest rate of annual KIBOR + 0.1% effective from the date of disbursement.

During audit of ISGS for the FY 2021-22, it was observed that the management of ISGS acquired a loan of Rs 192.918 million for Machike Trujaba Oil pipeline (MTOP). ECC of the Cabinet in its meeting held on February 12, 2019 assigned the same project to the private sector. The company charged accrued interest amounting to Rs 23.910 million as impairment loss to profit & loss account. Since then, interest amounting to Rs 58.585 million up to June 30, 2022 had also been accrued without extending any economic benefit to the organization. This resulted in recurring loss due to non-payment of principal amount of Rs 192.918 million along with accrued interest of Rs 58.586 million.

Audit was of the view that weak financial management resulted in non-payment of principal amount of Rs 192.918 million along with accrued interest amounting to Rs 58.586 million.

The matter was reported to the ISGS management in November, 2022. The management in its reply dated December 02, 2022 stated that MTOP being an oil pipeline project, the expenses incurred on the Project could not be settled by GIDC. Hence, the liability against MTOP Project was pended for settlement due to non-availability of funds. The interest was accrued till the settlement of outstanding loan amount according to terms of the Loan Agreement signed by ISGS and GHPL. The management reply was not tenable as issue of loan payment could not be resolved with GHPL since 2019 despite the fact that both the PSEs were under the administrative control of Petroleum Division.

The DAC in its meeting dated December 29, 2022 directed the management to take up the matter with Finance Division for resolution of the issue.

Audit recommends to implement the decision of DAC.

[DP No. 2058]

#### ***2.8.2.4.3 Non-recovery of group taxation benefit from GHPL - Rs 93.112 million***

According to the Section 59 AA Income Tax Ordinance, 2001, holding companies and subsidiary companies of 100 % owned group may opt to be taxed as one fiscal unit. In such cases consolidated group accounts, as required under the Companies Act, 2017, computation of income and tax payable shall be made for tax purposes.

During audit of ISGS for the FY 2021-22, it was observed that the management of ISGS surrendered carried forward losses amounting to Rs 321.077 million for the financial year 2020-21 to GHPL being parent company. GHPL availed benefit of group taxation amounting to Rs 93.112 million (29 % of Rs 321.077 million) at the time of filing of tax return for tax year 2021. But the management of ISGS neither created receivable from GHPL in its books of accounts nor recovered the amount. This resulted in non-recovery in the form of group tax amounting to Rs 93.112 million from GHPL.

Audit was of the view that weak monitoring and poor internal controls resulted in non-recovery of group taxation benefit amounting to Rs 93.112 million.

The matter was reported to ISGS management in November, 2022. The management in its reply dated December 02, 2022 stated that FBR authorities had recognized group tax benefit amounting to Rs 74.82 million. The receivable amount of Rs 74.82 million against group tax benefit from GHPL had been recorded as a closing adjusting entry that would be reflected in the audited financial statements for the FY June 30, 2022. The management reply was not tenable as evidence of recognizing group tax benefit of Rs 74.82 million and reason for rejection of refund amounting to Rs 18.29 had not been shared with Audit.

The DAC in its meeting dated December 29, 2022 directed the management to recognize the amount in books of accounts and share the audited financial statements for the year 2021-22 for verification of Audit within a week. DAC further directed to provide the reasons for rejection of refund amount.

Audit recommends that group taxation benefit may be recognized in the books of accounts and same may be recovered from the GHPL besides reasons for rejection of refund claim under group tax benefit may be shared with Audit.

[DP No. 2059]

#### ***2.8.2.4.4 Slack pursuance of refund case with FBR - Rs 22.187 million***

According to the Section 170 (1, 2 & 5) of the Income Tax Ordinance, 2001, a taxpayer shall apply within three years, in the prescribed form, for refund of excess amount paid to the Commissioner. The Commissioner shall order in writing, within sixty days, on refund application after providing the taxpayer an opportunity of being heard. Further, according to Section 127 of the Ordinance, *ibid*, any person aggrieved by the order of Commissioner of Income Tax may file an appeal in the prescribed form to the Commissioner of Income Tax Appeals.

During audit of ISGS for the FY 2021-22, it was observed that the management of ISGS submitted refund applications amounting to Rs 22.187 million within prescribed time for the tax years 2012 to 2020. But the management of ISGS did not follow up with the Commissioner of Income tax for early decision nor filed an appeal before Commissioner Appeals. This resulted in

blockage of funds due to non-follow up of refund cases amounting to Rs 22.187 million.

Audit was of the view that weak financial management and slack pursuance resulted in non-refund amounting to Rs 22.187 million.

The matter was reported to the ISGS management in November, 2022. The management in its reply dated December 02, 2022 stated that despite the verbal regular follow ups of refund cases with the Income Tax Authority through consultant, no favorable outcome could be achieved. Tax authorities neither demanded any further information nor was hearing opportunity provided against these refund applications. Reply was not tenable as no material steps had been taken up by the management for early resolution of refund cases.

The DAC in its meeting dated December 29, 2022 directed the management to pursue the matter with FBR for refund and share the outcome with Audit.

Audit recommends to implement the decision of DAC.

[DP No. 2060]

## **Others**

### ***2.8.2.4.5 Non-appointment of permanent Chief Internal Auditor***

According to Sub-Rule 13 of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall appoint Chief Internal Auditor and appointment, remuneration and terms and conditions of employment of the Chief Internal Auditor of Public Sector Company shall be determined with the approval of the Board.

During audit of ISGS for the FY 2021-22, it was observed that Manager Internal Audit working as acting Chief Internal Auditor, resigned from his post as on August 06, 2021. The Board assigned acting charge to Manager Accounts as Chief Internal Auditor who was working on this post to date. Pursuant to recruitment process, the Board approved a shortlisted candidate for the post of Chief Internal Auditor and authorized the directors for negotiation of salary package / remuneration but the salary package could not be finalized due to unreasonable demand of the candidate. Since then, no candidate could be finalized for the post of Chief Internal Auditor.

Audit was of the view that weak oversight of the BoD and inaction of the management resulted in violation of Public Sector Companies (Corporate Governance) Rules, 2013.

The matter was reported to the ISGS management in November, 2022. The management in its reply dated December 02, 2022 stated that the Board in its 153<sup>rd</sup> meeting held on October 27, 2022 on recommendations of 48<sup>th</sup> HR Committee meeting held on September 30, 2022 authorized the management to negotiate the salary with the shortlisted candidate for the position of CIA and to present the case for final approval of the Board. The management reply was not tenable as the management had taken up long time for appointment of CIA.

The DAC in its meeting dated December 29, 2022 directed the management to expedite the appointment process of Chief Internal Auditor and share the outcome with Audit.

Audit recommends to implement the decision of DAC.

[DP No. 2064]

## 2.8.3 ENAR Petrotech Services Private Ltd.

### 2.8.3.1(A) Introduction

ENAR was established in 1972 to provide services of EPCC (Engineering, Procurement, Construction and Commissioning) as a division of National Refinery Limited (NRL). Subsequently, it was converted into a Private Limited Company in July 1974 under the Companies Act, 1973 (now the Companies Act, 2017), and currently working under the administrative control of Ministry of Energy (Petroleum Division), Government of Pakistan.

From the date of incorporation until January, 2000, the Company operated as a wholly owned subsidiary of State Petroleum Refining and Petrochemical Corporation (PERAC). In February, 2000, the Company was transferred to State Engineering Corporation Private Ltd. (SEC). In April, 2007, the Government of Pakistan decided that the Company would work directly under the Ministry of Industries and Production. However, by the end of December, 2009, the Government of Pakistan decided that the Company would work under the SEC which currently holds 99.9 percent shares of the Company. Later on company was transferred to OGDCL according to Cabinet Division Memorandum dated December 23, 2019. However, the transfer of shares was still under process.

The objective of creation of the company was to create a pool of talented engineers and to attain self-reliance in engineering consultancy. It has more than 45 years of experience in Oil & Gas, Storage and Cross-Country pipelines, chemicals, petrochemicals, fertilizers, hydrocarbon processing and related process industrial sectors. It also offers the full spectrum of multi-disciplinary consulting services in mechanical, electrical, and process engineering.

### (B) Comments on Company Performance

The financial performance of the company for the last five years is as follows:

(Rs in million)					
Contents	2020-21	2019-20	2018-19	2017-18	2016-17
Net Revenue	146.564	117.638	141.559	99.856	122.411
Cost of Revenue	(112.329)	(110.383)	(111.545)	(110.025)	(108.086)
<b>Gross Profit</b>	<b>34.236</b>	<b>7.255</b>	<b>30.014</b>	<b>(10.169)</b>	<b>14.325</b>
Administrative	(27.299)	(26.623)	(27.323)	(27.099)	(24.129)

Expenses					
<b>Operating Profit/(Loss)</b>	<b>6.937</b>	<b>(19.368)</b>	<b>2.690</b>	<b>(37.268)</b>	<b>(9.804)</b>
Other income	2.867	3.341	3.209	2.420	4.851
Finance Cost	(1.406)	(1.893)	(2.515)	(0.391)	(0.306)
<b>Profit/(Loss) before Tax</b>	<b>8.397</b>	<b>(17.920)</b>	<b>3.384</b>	<b>(35.239)</b>	<b>(5.259)</b>
Taxation	(7.073)	(5.752)	(12.464)	(18.720)	(10.720)
<b>Profit/(Loss) after tax</b>	<b>1.324</b>	<b>(23.672)</b>	<b>(9.080)</b>	<b>(53.959)</b>	<b>(15.980)</b>

(Source: Annual Audited Financial Accounts)

### 2.8.3.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 76.644 million were raised in this report during the current audit of ENAR. This includes recoverable amount of Rs 51.743 million as pointed out by Audit. Summary of the audit observations classified by nature is as follows:

#### Over view of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Receivables Management	51.743
2	Others	24.901

### 2.8.3.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	% age of compliance
1996-97	5	4	1	80
1999-00	6	-	6	-
2000-01	5	4	1	80
2004-05	1	-	1	-
2005-06	6	2	4	33
2008-09	22	21	1	95
2013-14	18	2	16	11
2015-16	14	1	13	7
<b>Total</b>	<b>77</b>	<b>34</b>	<b>51</b>	<b>44%</b>

The overall compliance of PAC directives needs improvement.

## 2.8.3.4 Audit Paras

### Receivables Management

#### 2.8.3.4.1 Non-recovery of outstanding amount - Rs 51.743 million

According to Rule 14(1) of Public Sector Companies (Corporate Governance Rules), 2013, 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 ENAR for the FY 2020-21, it was observed that the management failed to recover outstanding amount on the accounts of receivables and pending claims of Rs 51.743 million as on June 30, 2021 as given below:

(Rs in million)			
Sr. No.	Brief Description of outstanding amounts	Aging	Outstanding Amount
1	Clients	06 months to over 1 year	43.918
2	Retention money		4.011
3	Lying with clients		2.896
4	PERAC	Over 24 years	0.918
	<b>Total</b>		<b>51.743</b>

Audit was of the view that weak financial controls, resulted in non-recovery of outstanding amount of Rs 51.743 million.

The matter was reported to the management on April 01, 2022. In DAC meeting held on January 19, 2023, the management explained that out of Rs 43.918 million an amount of Rs 41.515 million had been received and the remaining amount would be recovered in due course of time.

The DAC directed the management to get the stated stance verified from Audit and expedite the recovery of balance amount within one month.

Audit recommends to get the recovered amount verified from Audit besides expediting recovery of remaining amount.

[DP No. 1843]

## **Others**

### ***2.8.3.4.2 Non-settlement of dispute of rent agreement - Rs 24.901 million***

According to Rule 5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, the principle of probity and propriety entails that a company's assets and resources are not used for private advantage and due economy is exercised to reduce wastage. The principle shall be adhered to, especially for handling public funds, assets, resources, and confidential information by directors, executives, and employees and claiming expenses.

During audit of ENAR for the FY 2020-21, it was observed that the management entered into a rent agreement dated October 03, 2001 with PERAC Research & Development Foundation (PRDF), the owner of the building for lease of its office premises. The initial period of the agreement was 5 years and the effective date of agreement was November 01, 1997. The rent agreement expired on October 31, 2002. However, despite lapse of more than 19 years the agreement was not renewed due to dispute between the owner and the company at revised rates of the rent agreement. PERAC took the matter to Sindh High Court in 2013. The company had made a provision of rent payable amounting to Rs 24.901 million in its books of accounts up to June 30, 2021.

Audit was of the view that negligence of the management resulted in non-settlement of dispute of the rent agreement.

The matter was reported to the management on April 01, 2022. In DAC meeting held on January 19, 2023, the management explained that the matter was sub-judice in Sindh High Court and last date of hearing was November 22, 2022.

The DAC directed the management to pursue the case vigorously.

Audit recommends vigorous pursuance of the sub-judice case.

[DP No. 1845]



## Chapter-3

### Cabinet Division

#### 3.1 Oil and Gas Regulatory Authority

##### 3.1.1(A) 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. Authority comprises of Chairman 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. 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.

Audit profile of OGRA under Cabinet Division is as under:

(Rs in million)

Sr. No.	Description	Total Nos.	Audited	Expenditure audited FY 2021-22	Revenue audited FY 2021-22
1	Cabinet Division (OGRA)	1	1	1,483.378	1,811.658

(Source: Annual Audited Accounts)

##### 3.1.1 (B) Comments on Audited Accounts

The Authority did not provide its audited financial statements for the FY 2021-22.

##### 3.1.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 9,774.955 million were raised in this report during the current audit of OGRA. This amount also includes recoverable

amount of Rs 919.037 million as pointed out by Audit. Summary of the audit observations classified by nature is as under:

### Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Non-Production of Record (1 para)	-
2	Irregularities	-
A	Defective Financial Management	2,398.119
B	Violation of Rules / Regulations	7,076.836

### 3.1.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
2006-07	05	04	01	80
2009-10	01	0	01	-
2010-11	07	07	0	100
2011-12	01	0	01	-
2012-13	05	0	05	-
2013-14	14	12	02	86
2014-15	20	06	14	30
2015-16	03	01	02	33
2016-17	01	01	0	100
2017-18	21	16	05	76
2018-19	19	12	07	63
2019-20	04	04	0	100
2020-21	07	04	03	57
<b>Total</b>	<b>108</b>	<b>67</b>	<b>41</b>	<b>62</b>

The overall compliance of the PAC directives was very poor and required immediate attention of PAO.

### 3.1.4 Audit Paras

#### 3.1.4.1 Non-production of record

According to Section 14(2) of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001, the officer-in-charge of any office or department shall afford all facilities and provide a record for audit inspection and comply with requests for information as complete form as possible and with all reasonable expedition. PAC in its meeting held on August 10, 2020 unanimously concluded that the Parliament including its Committees are required to make Parliamentary Oversight without any exception. Although under Articles 169 and 170 of the Constitution, the AGP performs function with reference to the accounts of the Federation etc. yet through his yearly audit and special reports etc., reports not only about the accounts but also about the multi-dimensional performance of all the concerned: therefore, ***the jurisdiction of the AGP and consequential oversight jurisdiction of the Parliament cannot be restricted to accounts only by excluding the performances of the authorities or bodies established by, or under the control of, the Federal Government particularly***, when impacting the public interest and involving finances: accordingly, in response no one could substantiate to convince the PAC to exclude the performance audit jurisdiction of the AGP relating to public interest and involving finances: consequently, the PAC unanimously decided and directed the Secretary Cabinet to circulate this decision of the PAC to all concerned including the authorities and bodies established by, or under the control of, the Federal Government that the AGP has the jurisdiction to conduct their audit.

During audit of OGRA for the FY 2021-22, it was observed that OGRA did not provide the record / information which was requisitioned for audit scrutiny despite PAC directives dated August 10, 2020, December 01, 2020, June 08, 2022 and repeated verbal / written requests as detailed in the Annexure-6.

Audit was of the view that non-production of record was violation of Section 14(2) of the Auditor General's Ordinance, 2001 and the directives of PAC. Similar nature paras were pointed out in audit reports 2021-22 [Para No. 3.1.4.1], 2020-21 [Para No. 3.1.7.1] and 2019-20 [Para No. 3.1.7.1].

The matter was reported to Authority in August, 2022. OGRA in its reply dated October 31, 2022 stated that items mentioned as “not produced” in the audit observation mainly pertained to the regulatory functions of the Authority. In this regard attention was invited to the legal opinions rendered by the Ministry of Law & Justice dated October 02, 2019 and the office of Attorney General of Pakistan dated September 24, 2021 which were explicit / lucid and in field. The departmental stance being violative of the constitutional provisions, enactments made there-under and directions of the PAC was not tenable as the matter was taken up with the Cabinet Division by the Auditor General of Pakistan. Cabinet Division took up the matter with the Federal Cabinet and a committee was constituted for further course of action, outcome of which was still awaited.

The DAC in its meeting held on December 26, 2022 pended the para till finalization of the matter of provision of record relating to regulatory functions and directed OGRA to provide remaining data relating to accounts to Audit expeditiously.

Audit contended that the decision of the Prime Minister and his Cabinet / Committee would not have any overriding effect on provisions of the Constitution. It would at best clarify the point of view of the government on this important issue.

Audit recommends to initiate action against the responsible persons for defiance to its directives of Parliamentary Oversight through audit by Auditor General of Pakistan besides providing record relating to regulatory functions of OGRA to Audit.

[DP No. 2159]

## **Defective Financial Management**

### ***3.1.4.2 Non-remission of OGRA Fund to the Federal Consolidated Fund- Rs 1,729.462 million***

According to Section 18 of OGRA Ordinance, 2002 there shall be a fund to be known as OGRA Fund to utilize by the authority to meet its expenses and charges properly incurred in connection with the carrying out of its functions and duties. Later on, according to amendment made by Federal Government in section 17 of OGRA Ordinance, 2002 through section 17 of Finance Act 2012 (Act No. XVII, 2012), all surplus of receipts over the actual expenditure in a

year, after payment of tax, shall be remitted to the Federal Consolidated Fund and any deficit from the actual expenditure shall be made up by the Federal Government.

During audit of OGRA for the FY 2021-22, it was observed that an amount of Rs 1,729.462 million appearing in the accounts as OGRA fund for operational purposes. However, in the light of aforementioned amendment in OGRA Ordinance 2002, OGRA fund was required to be remitted in Federal Consolidated Fund. Federal Government was responsible to finance OGRA in case of any deficit arises out of its operations, meaning thereby that OGRA could not retain any amount to meet its expenses incurred in connection with carrying out of its functions and duties.

Audit was of the view that OGRA fund was being maintained due to non-adherence to the Section 17 of Finance Act, 2012.

The matter was reported to Authority in August, 2022. OGRA in its reply dated October 31, 2022 stated that OGRA was obligated to deposit only the surplus fund into FCF, not the entire OGRA Fund. Reply of the management was not tenable, in the light of aforementioned amendment in OGRA Ordinance, 2002, the Federal Government was now responsible to finance Authority in case of any deficit arises out of its operations.

The DAC in its meeting held on December 26, 2022 directed OGRA to furnish break up / item wise complete detail of OGRA Fund to Audit and Cabinet Division. In compliance of DAC directives, the management provided the PC-I of building project showing the cost of Rs 668.10 million approved by DDWP in 2013 along with proposed cost of Rs 998.20 million in 2018 for the approval of DWP. Whereas, the total billed amount was only Rs 686.07 million as on December 13, 2022. However, complete detail of OGRA fund of Rs 1,729.462 million was not provided.

Audit recommends to implement the decision of DAC and deposit the OGRA fund in the Federal Consolidated Fund immediately and stop to maintain the fund in future to comply with the above rule.

[DP No. 2151]

***3.1.4.3 Non-deposit of surplus receipts over expenditure and fines & penalties to the Federal Consolidated Fund - Rs 487.478 million***

According to amendment made by the Federal Government to Section 17 of OGRA Ordinance, 2002 through Section 17 of Finance Act, 2012, all surpluses of receipts over the actual expenditure in a year, after payment of tax, shall be remitted to the Federal Consolidated Fund.

During audit of OGRA for the FY 2021-22, it was observed that the Authority did not deposit the fines and penalties of Rs 108.82 million as shown in the Trial Balance / Ledgers for the year ended on June 30, 2022. Further, Authority did not deposit a surplus of receipts over expenditure amounting to Rs 378.658 million to the Federal Consolidated fund for the FY 2021-22. This failure on the part of its management deprived the national exchequer of Rs 487.478 million.

Audit was of the view that poor financial management resulted in non-deposit of fines & penalties and surplus receipts to the tune of Rs 487.478 million to the Federal Consolidated Fund. Similar nature paras were pointed out in audit reports 2020-21 [Para No. 3.1.7.3] of Rs 538.781 million and 2019-20 [Para No. 3.1.7.2] of Rs 624.397 million.

The matter was reported to OGRA in August, 2022. OGRA its reply dated October 31, 2022 stated that the surplus of receipts over expenditure for FY 2021-22 would be deposited after finalization of the audited accounts by the chartered accountant firm. As far as non-deposit of penalties of Rs 108.82 million was concerned out of this an amount of Rs 23.70 million had been deposited into FCF on August 26, 2022. The management was required to deposit the surplus receipt over expenditure into FCF without further delay, further the documentary evidence of penalties levied and deposited there against be shared with Audit to proceed further in the matter.

The DAC in its meeting held on December 26, 2022 directed OGRA to deposit immediately surplus receipts over expenditure and fines & penalties to FCF including interest earned till the date of deposit besides disposal of review petition as soon as possible. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2134]

#### ***3.1.4.4 Unjustified exemption from interest on HBA and MCA resulting in potential loss of revenue Rs 135.869 million***

According to Rule 9 of OGRA Financial Regulations, 2005, every officer of the authority who is authorized to incur expenditure from the OGRA fund account shall exercise the same vigilance in respect of the expenditure as a person of ordinary prudence would exercise in respect of the expenditure of his own money and ensure that the authority's money is not expended for the benefit of a particular employee or class of employees. According to Finance Division (Regulation Wing-II) letter O.M No. F-1(1)imp/94 dated June 26, 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.

During audit of OGRA for the FY 2021-22, it was observed that the Authority in its administrative meeting No. 06 of 2022 held on April 14, 2022 approved zero interest rate on the repayment of remaining and prospecting HBA loan to make it interest free for all the eligible employees. The Authority granted interest-free house building advance of Rs 92.500 million to its executive cadre employees. Moreover, authority also granted interest-free motor car loans of Rs 147.76 million to the employees although the employees were receiving interest on their contributory provident fund (CPF) accounts. As a matter of principle, the authority should have charged interest on these loans. This undue benefit to the employees resulted in a loss to the tune of Rs 135.869 million (i.e. interest that should have been charged @ 10.3%). Moreover, OGRA framed Service Regulations under Section 42 of OGRA Ordinance, 2002 without prior approval of Federal Government.

Audit was of the view that poor management practices resulted in unjustified exemption to the employees from payment of interest of Rs 135.869 million on motor car loan and house building advances. Similar nature paras were pointed out in audit reports 2021-22 [Para No. 3.1.4.5] of Rs 38.438 million and 2019-20 [Para No. 3.1.7.12] of Rs 27.089 million.

The matter was reported to OGRA in August 2022. OGRA in its reply dated October 31, 2022 replied that Authority was exclusively empowered to determine the matters in its jurisdiction including pay & allowances and

remuneration policies of its employees. Amount of interest i.e. Rs 82.66 million on HBA worked out by the Audit @ 10.3% was not correct as interest rate equal to State Bank of Pakistan (SBP) discount rate i.e. 7% was being charged from OGRA employees according to policy in vogue. The reply of the management was not tenable as the Authority in its administrative meeting No. 06 of 2022 held on April 14, 2022 approved zero interest rate on the repayment of remaining and prospecting HBA loan to make it interest free for all the employees. Finance Division vide letter dated November 17, 2022 declared the final rate of markup @ 11.20% on loan /advances for the purchase of conveyance and House Building.

The DAC in its meeting held on December 26, 2022 directed OGRA to refer the case to Finance Division for vetting as it affects the Federal Consolidated Fund. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides framing Financial / Service Rules with prior approval of Federal Government.

[DP No. 2154]

#### ***3.1.4.5 Non-recovery of LPS due to delayed receipt of fees - Rs 23.984 million***

According to Section 40(B) of Public Finance Management Act, 2019 non-tax revenue shall be levied and charged in accordance with the provisions of relevant laws and such other applicable instruments. Further according to Section 40(D) of the Act *ibid* provides that an amount equal to monthly weighted financing cost of the government domestic borrowings shall be payable during the period of default, in addition to the amount due under Section 40 B of the Act *ibid*. Furthermore, as per 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 as the case may be and thereafter, yearly in advance.

During audit of OGRA for the FY 2021-22, it was observed that the Authority collected the annual fees of Rs 666.596 million with a delay of 36 to 275 days. Due to delay in deposit of annual fee by the licensees, OGRA could not earn interest on annual fees. This resulted in non-recovery of LPS of

Rs 23.984 million, calculated by applying 15.73% interest rate on delayed payments.

Audit was of the view that the poor financial control resulted in non-recovery of LPS due to delayed payment.

The matter was reported to Authority in August, 2022. In DAC meeting dated December 26, 2022 management of OGRA explained that there was no deadline for deposit of fee by the licensee. Normally, fees were received in the first quarter of the fiscal year. Audit contended that the fees were required to be submit by the licensees in advance as mentioned in rule 29 of Natural Gas Regularity Authority (Licensing) Rules 2002.

The DAC in its meeting held on December 26, 2022 directed OGRA to frame regulation / SOP regarding deadline for payment of fee by licensees. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides taking measures for the recovery of LPS from the licensees.

[DP No. 2148]

#### ***3.1.4.6 Irregular purchase of vehicles during the ban period – Rs 21.326 million***

According to Para (i) of the Finance Division, Government of Pakistan's OM No. F.7(1)Exp-IV/2016-440 dated July 15, 2021, circulating austerity measures for the FY 2020-21, there was a ban on the purchase of all types of vehicles, both from the current as well as development budget, except operational vehicles of law enforcing agencies for which NOC from the Finance Division was required.

During audit of OGRA for the FY 2021-22, it was observed that the authority purchased nine (9) vehicles during ban period worth Rs 21.326 million during 2021-22 without obtaining the NOC from the Finance Division. This resulted in irregular expenditure of Rs 21.326 million.

Audit was of the view that weak internal control resulted in irregular purchase of vehicle for Rs 21.326 million. Similar nature paras were pointed out in audit reports 2020-21 [Para No. 3.1.4.7] of Rs 1.042 million and 2019-20 [Para No. 3.1.7.8] of Rs 11.904 million.

The matter was reported to Authority in August, 2022. OGRA in its reply dated October 31, 2022 stated that in the light of provisions of Sections 3(2), 17 & 18 of the OGRA Ordinance 2002, Authority was self-competent and fully empowered to incur expenditure in accordance with its budget duly approved by the Budget Committee. The reply was 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 26, 2022 directed OGRA to get the matter regularized from Finance Division. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2139]

***3.1.4.7 Non-framing of Financial / Service Rules and non-vetting of Regulations from the Finance Division***

According to Finance Division (Regulation Wing-II) letter O.M No. F-1 (1) imp/94 dated June 26, 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 2002, the authority may with the approval of the Federal Government, make rules for carrying out the purposes of this ordinance. Furthermore, according to Rule 12 of Rules of Business 1973, no division shall, without prior consultation with the Finance Division, authorize 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 2021-22, it was observed that the authority did not frame Financial and Service Rules for its operation as required under Section 41 of the OGRA Ordinance, 2002. The Authority made Service Regulations, 2005 in the absence of Rules without vetting from Finance Division / Federal Government. Therefore, it was necessary for OGRA either to make Rules for its operation with the approval of Federal Government or get its

Service Regulations vetted from the Finance Division. This resulted in expenditure on pay and allowances amounting to Rs 702.213 million without Rules and vetting of Service Regulations by the Finance Division.

Audit was of the view that the management failed to comply with the OGRA Ordinance 2002 and instructions of the Federal Government contained in the Finance Division's OM and Rule 12 of the Rules of Business, 1973 and directives of the PAC dated September 23, 2019 regarding vetting of rules / regulations from the Finance Division. Similar nature para was pointed out in audit reports 2019-20 [Para No. 3.1.7.11] of Rs 699.388 million.

The matter was reported to Authority in August, 2022. In DAC meeting dated December 26, 2022 management of OGRA explained that opinion of Law & Justice Division was obtained in pursuance of PAC Directive dated June 08, 2022 regarding Para No. 3.1.7.11 of AR 2019-20 which stipulated that OGRA as per Section 3 of its enabling law was an independent regulator. Therefore, OGRA Service Regulations were not required to be vetted by the Finance Division.

The DAC in its meeting held on December 26, 2022 pended the Para for consideration by PAC. Audit, however, contended that PAC in its meeting held on September 23, 2019 already directed OGRA to get the expenditure regularized from the Finance Division while discussing Para No. 2.5.4.4 of ARPSE 2017-18.

Audit recommends that the OGRA need to make rules with the approval of Federal Government for its operation and amend its Service Regulations, 2005 accordingly.

[DP No. 2141]

### **Violation of Rules / Regulations**

#### ***3.1.4.8 Unjustified acceptance of UFG differential claim of gas companies – Rs 6,782 million***

According to Rule 15 of NGT Rules, 2002, the Authority shall decide a petition within five and one half months of the date of filing of the petition. Further, according to Rule 16, a motion for review may be filed within thirty days of final determination, and a motion for review shall specify the grounds on which review is sought by the party. Authority may grant leave for review on

such conditions including limits on time or additional evidence proposed to be presented in the review. According to Rule 17(c) of NGT Rules, 2002 read with OGRA Ordinance 2002, tariffs should include a mechanism to allow licensees a benefit from and penalties for failure to achieve benchmark set by the Authority through yardstick regulation for, inter-alia and without limiting the generality of such regulation, capacity utilization, operation and maintenance cost and UFG.

OGRA re-determined UFG bench mark for the FY 2012-13 to FY 2016-17 against the motion for review filed by the petitioners as detailed below:

(Rs in million)			
Sr. No.	Particulars	SSGC	SNGPL
1	Average UFG Allowance in %	6.07%	6.99%
2	Adjustment / Differential of UFG	0.78%	0.11%
3	UFG Benchmark (1+2)	6.85%	7.10%
4	Adjustment /differential of UFG allowed (in MMCF)	16,880	3,369
5	UFG allowance allowed	5,668	1,114
	<b>Grand Total</b>		<b>6,782</b>

UFG benchmark rate was increased retrospectively for past five years from 4.5% to 6.85% (SSGC) and 7.10% (SNGPL) respectively and an additional benefit on account of UFG allowance of Rs 6,782 million was given to SSGC and SNGPL. OGRA decided the UFG differential claim, in majority without considering the reservations/observations given by member finance in the form of dissenting note and allowed the variable allowance of up to 2.6% (subject to maximum of Sui Companies' Claim).

However, Member Finance had given his dissenting note on this matter on the grounds that the technical committee almost unanimously recommended to uphold earlier decision of closing / finalizing the provisional FRRs. Further, the companies' adverse financial health, it was due to their own inefficiencies and it was not the fault of the consumers. OGRA allowed reasonable return in each financial year which had to be earned by companies as per license condition 5.2 of the licenses granted to both Sui Companies. The decision of the Authority must be based on principle, efficient regulatory practice and not on the profitability of licensees. If the profitability was based, it contradicts the Authority own efficiency benchmarks as well as regulator role for the protection of consumer interest.

Audit was of the view that due to undue favour extended to gas companies by OGRA extra benefit of UFG allowance of Rs 6,782 million was given retrospectively and its burden was passed on to the consumers.

The matter was reported to the OGRA and Cabinet Division during January, 2023. The management in its reply dated February 07, 2023, stated that the matter was rightly dealt according to provisions of law. Reply of the management was not tenable as favour was extended to gas companies by increasing UFG benchmark from 4.5% to (6.55% of SSGC and 7.10 % of SNGPL) retrospectively for the past five years i.e. FYs 2012-13 to 2016-17 by OGRA without considering the dissenting note of Member Finance.

Audit recommends probing the matter relating to undue benefit extended to gas companies besides fixing the responsibility on the persons at fault. Undue benefit given to gas companies may also be recovered.

[DP No. 2319]

***3.1.4.9 Non-realization of annual inspection fee from CNG stations - Rs 223.525 million***

According to Rule 7(1) of CNG Rules 1992, Authority carried out annual inspection of its all operational CNG stations from third party inspectors. OGRA charged Rs 100,000 from each station as annual inspection fee out of which 50% was remitted to 3<sup>rd</sup> party inspectors and remaining was retained by the Authority itself to meet its operational needs.

During audit of OGRA for the FY 2021-22, it was observed that Authority carried out a mandatory annual inspection of all the CNG stations in the country through third-party inspectors. OGRA charged Rs 100,000 from each station as an annual inspection fee out of which 50% was remitted to 3<sup>rd</sup> party inspectors and the remaining was retained by Authority. Out of 3,025 CNG stations in the country, 2,236 CNG stations did not deposit the annual inspection fee but OGRA did not take any action to recover the same from the CNG stations. This resulted in the non-realization of the annual inspection fee amounting to Rs 223.525 million.

Audit was of the view that weak monitoring resulted in non-recovery of annual inspection of Rs 223.525 million. Similar nature paras were pointed out in audit reports 2021-22 [Para No. 3.1.4.10] of Rs 117.400 million, 2020-21

[Para No. 3.17.5] of Rs 362.650 million and 2019-20 [Para No. 3.1.7.4] of Rs 50.700 million.

The matter was reported to Authority in August, 2022. The management in its reply dated October 31, 2022 stated that quoted inspection fee was not applicable on CNG stations which had closed down temporarily. The reply of the management was not supported by any documentary evidence.

The DAC in its meeting held on December 26, 2022 directed OGRA to get the status of “closed CNG stations” verified from Audit in support of stated reply. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2138]

***3.1.4.10 Unauthorized retention of Competition Commission of Pakistan fee - Rs 40.066 million***

According to Clause 3 of S.R.O. 72 (I)/2009 dated 28th January 2009 the percentage of fees shall be paid by the Oil and Gas Regulatory Authority to the CCP, 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 FY 2021-22, it was observed that the authority did not remit the payable fee of Rs 40.066 million to the CCP as shown in the financial statements for the year ended June 30, 2022.

Audit was of the view that the authority was required to deposit the fee of Rs 40.066 million to CCP. Similar nature para was pointed out in audit reports 2019-20 [Para No. 3.1.7.9].

The matter was reported to OGRA in August 2022. OGRA in its reply dated October 31, 2022 stated that audit of OGRA’s annual accounts for FY 2021-22 by the Chartered Accountant firm was under process. Accordingly, OGRA should remit due fee to the CCP for FY 2021-22 upon finalization of its accounts.

DAC in its meeting held on December 26, 2022 directed OGRA to remit fee to CCP at the earliest. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2135]

***3.1.4.11 Irregular payment of Professional Fee without getting prior approval from Law Division - Rs 23.130 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 0.3 million. 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 OGRA for the FY 2021-22, it was observed that the management paid Rs 23.13 million during the FYs 2020-21 & 2021-22 to legal counsels on account of Professional Fee without getting the concurrence of the Law, Justice and Human Rights Division for engagement of lawyer despite the fact that Chairperson OGRA in PAC meeting held on March 06, 2020 apprised the PAC committee that OGRA had to take ex-post facto approval from Law Division. This resulted in irregular expenditure on account of Professional Fees of Rs 23.130 million.

Audit was 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 to management in August, 2022. In a DAC meeting held on December 26, 2022, the OGRA stated that Authority was self-competent and fully empowered to incur expenditure under OGRA Ordinance, 2002.

The DAC directed OGRA to obtain post facto approval from Law, Justice and Human Rights Division in the matter. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2242]

#### ***3.1.4.12 Loss due to non / short deduction of Income Tax – Rs 8.115 million***

According to Section 149 of Income Tax Ordinance 2001, every person responsible for paying salary to an employee shall, at the time of payment, deduct tax from the amount paid at the employee's average rate of tax computed at the rates specified in Division-I of Part-I of the First Schedule. Further, according to SRO No. 569(I)/2012 dated May 26, 2012, the tax on payments under the compulsory monetization of transport facility for civil servants in BS-20 to BS-22 shall be charged at the rate of 5% as a separate block of income.

During audit of OGRA for the FY 2021-22, it was observed that the authority failed to deduct Income Tax of Rs 0.733 million while making payment of leave encashment and also short deducted Rs 7.382 million from the salaries of employees. This resulted in the non / short deduction of Income Tax of Rs 8.115 million.

Audit was of the view that poor financial control resulted in short/non-deduction of income tax of Rs 8.115 million. Similar nature para was pointed out in audit report 2021-22 [Para No. 3.1.4.12] of Rs 9.110 million.

The matter was reported to Authority in August, 2022. The management in its reply dated December 26, 2022 explained that income tax was deducted as per applicable rules.

The DAC in its meeting held on December 26, 2022 directed OGRA to seek clarification from FBR in the matter. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2153]

#### ***3.1.4.13 Non-finalization of third-party audit of UFG***

According to Rule 15 & 17 (c) of NGT Rules, 2002, the Authority shall decide a petition within five and one half months of the date of filing of the petition. Further, according to Rule 16, a motion for review may be filed within thirty days of final determination, and a motion for review shall specify the grounds on which review is sought by the party. Further, tariffs should include a mechanism to allow licensees a benefit from and penalties for failure to achieve benchmark set by the Authority through yardstick regulation for, inter-alia

capacity utilization, operation and maintenance cost and UFG. Furthermore, according to the provisions of the Contract, the consultant firm was responsible to deliver the first report within 120 days after signing the contract i.e. February 01, 2022.

During audit of OGRA for the FY 2021-22, it was observed that M/s International Consult Associates were assigned to conduct the audit of Sui companies to determine (i) actual UFG in respect of indigenous gas as well as imported RLNG for the period FY 2014-15 to FY 2019-20 and (ii) diversion of RLNG volume by SNGPL to domestic and commercial consumers. The UFG audit was initiated by M/s International Consult Associates on October 04, 2021. However, the firm, vide letter dated April 29, 2022 requested an extension in time for 2 to 3 months on the plea that information from SSGC was awaited and that until then the firm would focus on SNGPL. It was pertinent to mention that the extension of 180 days i.e. till July 31, 2022 starting from February 01, 2022 was granted by the Authority. Considerable time had already elapsed but neither the assigned tasks were completed nor any punitive action was taken by the OGRA against the consultant firm or SSGC which failed to provide the requisite record.

Audit was of the view that weak monitoring of audit assignments and weak regulatory oversight resulted in delay in completion of important tasks assigned to the consultant firm due to delay provision of information by SSGC.

The matter was reported to Authority in August, 2022. OGRA in a DAC meeting held on December 26, 2022 stated that audit by the consultant firm was on the verge of completion.

The DAC directed OGRA to ensure finalization of subject audit by the consultant firm by December 31, 2022. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides taking action against persons responsible for delay in completion of the audit.

[DP No. 2136]

#### ***3.1.4.14 Non-imposition of penalty against the gas companies for poor service delivery***

According to Rule 6 (g, o & p) of OGRA Ordinance, 2002, OGRA shall promote effective competition and efficiency in the activities within its jurisdiction, safeguard the public interest, including national security interest, of Pakistan in relation to regulated activities. Further, according to Rule 17( c ) read with Rule 20 of NGT Rules, 2002, tariff should include a mechanism to allow licensees a benefit from and penalties for failure to achieve, benchmarks set by the Authority through yardstick regulation for inter-alia and without limiting the generality of such regulation, capacity utilization operation and maintenance costs and unaccounted for natural gas.

During audit of OGRA for the FY 2021-22, it was observed that consumer complaints were not addressed by the licensees (i.e. SNGPL & SSGC) at the very initial stage when the consumer contacted/visited their offices. This compelled few numbers of consumers to approach OGRA for the resolution of their complaints such as non-installation of meter, excess billing, non-dispatch of the bill, low pressure of gas etc. Although on the intervention of Authority, consumers did receive relief, however, neither punitive action was taken against the licensees nor against the persons at fault. Further, Audit requisitioned the details of weekly, monthly, quarterly and annual reports / returns received from licensees to ascertain how many complaints were received and disposed of by them at their level but the same was not provided. Some illustrative cases showing quality of service delivery by gas companies have been given in Chapter 4 of this Report.

Audit was of the view that due to weak monitoring controls of Authority, action was not taken against the licensees on poor service delivery on consumer complaints.

The matter was reported to OGRA in August 2022. OGRA in its reply dated October 31, 2022 replied that OGRA under Sections 6(2) and 42 of OGRA Ordinance, 2002 had formulated / notified Performance and Service Standards Regulations to ensure service, efficiency and safe operation of regulated activities of sui companies. The compliance reports were also submitted by the companies on regular basis and any action, if required, were taken accordingly in

case of non-conformance. The reply of the management was not supported by documentary evidence regarding action taken by the Authority.

The DAC in its meeting held on December 26, 2022 directed OGRA to frame punitive mechanism in the matter and also to provide complete data of complaints to Audit besides taking action against the persons at fault for non-provision of complete record of complaints received from licensees at OGRA. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2144]

#### ***3.1.4.15 Defective determination of revenue requirement of gas companies***

According to Rule 6 (g, o & p) of OGRA Ordinance, 2002, OGRA shall promote effective competition and efficiency in the activities within its jurisdiction, safeguard the public interest, including national security interest, of Pakistan in relation to regulated activities. Further, according to Rule 17( c ) read with Rule 20 of NGT Rules, 2002, tariff should include a mechanism to allow licensees a benefit from and penalties for failure to achieve, benchmarks set by the Authority through yardstick regulation for inter-alia and without limiting the generality of such regulation, capacity utilization operation and maintenance costs and unaccounted for natural gas.

During audit of OGRA for the FY 2021-22, it was observed that Member (Gas) given observation while determining SNGPL FRR 2018-19, that effective and objective determination was not undertaken relating to distribution loss, whatever claimed by the SNGPL, had been proposed by the gas department of OGRA and taken as ‘determination of the authority. Further, during the authority proceedings for review of the said SNGPL FRR 2018-19, it was also pointed by the Member (Gas) that actual amount of distribution loss and transmission loss should have been calculated independently by OGRA professionals. Authority did not perform its assigned functions of data verification at all stages starting from gas input into the system from the sources till delivery to the end consumers as detailed below:

- i. Over all data of SSGC and SNGPL regarding various components of the gas value chain and volume chain such as indigenous gas and RLNG which equate with gas billed to consumers, system loss, free gas facility, gas blown off during maintenance, gas lost / flared due to sabotage,

blasts, gas internally consumed (GIC) & UFG (leakages, measurement issues, pressure issues, third party damages, and theft);

- ii. Monthly / yearly verification of volumes / BTU received in the system from various sources;
- iii. Gas injected into each Sales Meter Stations compared with Town Boarder Station and with sales figures to calculate the UFG of the respective city/region
- iv. UFG for RLNG supplied to domestic consumers with the help of data about industrial and commercial consumers billed as RLNG consumers.

Audit was of the view that inefficiency on the part of Authority resulted in inaccurate determination of the UFG of gas companies forcing the authority to hire a private firm.

The matter was reported to OGRA in August 2022. OGRA in its reply dated October 31, 2022 stated that it was impossible to reliably determine the actual distribution losses relating to RLNG since both the companies had no separate RLNG measurement mechanism at their T&D network and indigenous gas & RLNG was commingled as system gas. Moreover, the Authority further, decided that determination of actual UFG was in accordance with policy guidelines of FG, required independent and in-depth review, verification, analysis, due diligence to segregate the actual purchases, sales, GIC, free gas facility etc. by utilizing the services of independent technical auditor. Reply was not tenable as it was the prime responsibility of the OGRA to determine the UFG according to prescribed parameters.

The DAC in its meeting held on December 26, 2022 directed OGRA to conduct an inquiry in the light of observation of Member Gas and fix responsibility on the persons at fault. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2146]

#### ***3.1.4.16 Non-observance of safety standards in LPG sale and distribution***

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, according to 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. The Federal Government vide S.R.O. 1068(I)/2013 dated December 18, 2013 amended certain clauses of LPG (Production and Distribution) Rules, 2001 banned the filling of Public Service Vehicles (PSVs) i.e. three wheelers, buses, coaches and wagons to use LPG fuel and the licensee shall ensure not to refueled or entertained the same.

During audit of OGRA for the FY 2021-22, it was observed that the OGRA did not take any action against the illegal selling of LPG at thousands of outlets in all over the country. These outlets were working without license and thus their activities were not under any control / in any regulated manner. The Express Tribune dated August 17, 2021, reported that more than 225,000 rickshaws and other public transport vehicles in Lahore were illegally using LPG instead of CNG and petroleum. Therefore, it was the responsibility of the OGRA to make sure that the licensees of LPG should adhere to and comply with LPG (Production and Distribution) Rules, 2001 but unfortunately, no action was taken by the OGRA. Explosion of sub-standard LPG cylinders, especially those fitted in the vehicles banned to use LPG had resulted loss to lives & properties as reported in print media.

Audit was of the view that the management of OGRA failed to take serious steps against un-authorized LPG distributors regarding illegal selling and decanting of LPG through illegal outlets. Similar nature para was pointed out in audit reports 2019-20 [Para No. 3.1.7.10].

The matter was reported to Authority in August, 2022. OGRA in its reply dated October 31, 2022 stated that OGRA, under the provision of Section 29 of OGRA Ordinance 2002, authorized the Deputy Commissioners and the Assistant Commissioners of all the Provincial Governments, for taking stern action against illegal decanting of LPG and filling of LPG in public transport. Audit contended that the OGRA should take action against the LPG licensees who sell the LPG to

unauthorized dealers in breach of the license condition besides pursuing the matter with DC / AC for taking stern action against illegal decanting of LPG and filling of LPG in public transport

The DAC in its meeting held on December 26, 2022 directed OGRA to initiate immediate action against unlawful selling and distribution network of LPG besides devising mechanism to restrict the practice. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2150]

### ***3.1.4.17 Non-formulation of Rules as specifically required by OGRA Ordinance, 2002***

According to Sections 41 and 42 “power to make Rule & Regulations” of the OGRA Ordinance 2002, Authority may with the approval of the federal government, shall not be unduly delayed or unreasonably withheld, make Rules for carrying out the purposes of this ordinance. On approval of Rules, the federal government shall notify the same in the official gazette. Authority may, by notification in the official gazette, make regulations, not inconsistent with the provisions of this Ordinance or the Rules, for the carrying out of its functions under this Ordinance.

During audit of OGRA for the FY 2021-22, it was observed that the Authority failed to frame the rules and regulations as required under Sections 41 & 42 of the OGRA Ordinance, 2002 despite lapse of considerable time, few instances are enumerated below:

<b>Applicable Law</b>	<b>Rules / Regulations not framed</b>
Section 41 of OGRA Ordinance, 2002	Inspection and Audit of regulated activity
	Access and inspection by the Authority
	Actions in case of public emergency and escape of petroleum
	Supply natural gas to new areas and persons
	Enforcing the terms and conditions of license and decisions of the Authority
	Third Party Access Rules in Oil Sector Storages and LNG terminal capacity
Section 42 of OGRA Ordinance, 2002	Maintenance, submission and inspection of record
	Resolving resolution of disputes among the licensees

Audit was of the view that non-framing of rules / regulations was a serious negligence on the part of the authority.

The matter was reported to Authority in August, 2022. OGRA in its reply dated December 26, 2022 stated that OGRA since its inception had framed several Rules, Regulations & Technical Standards etc. for carrying out its functions provided in its enabling law i.e. OGRA Ordinance, 2002 and this process was still ongoing. Audit contended that the above Rules and Regulations needed to be framed for smooth and efficient working of the OGRA.

The DAC in its meeting held on December 26, 2022 directed OGRA to frame Rules and Regulations as required under Sections 41 & 42 besides providing the copy of already framed Rules and Regulations to Audit. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2241]



## **THEMATIC AUDIT**



## **Chapter-4**

### **4.1 Thematic Audit of Quality of Service Delivery by Gas Utility Companies**

#### **4.1.1 Introduction**

Petroleum Division and DG (Gas) administer gas sector through policy formulation, planning, demand forecast, allocation of gas, and legislation regarding matters relating to indigenous production of gas, import of LNG and supply within country. The indigenous gas production is handled by E&P companies and sold to gas utility companies i.e. SNGPL and SSGC which are entrusted with the functions of transmission and distribution / supply of gas to end consumers. Indigenous sources were scarcely meeting the requirements of natural gas till the FY 2014-15. Being cheaper fuel, as compared to its alternative fuels consumption of natural gas is increasing by 9% every year. On one hand indigenous gas sources are insufficient to meet ever increasing demand, rather these are diminishing rapidly, on the other hand absence of any substantial new discovery is further widening demand and supply gap of natural gas. To meet the acute gas shortfall, Federal Government started import of LNG in 2015 which contributed 10% of country's energy mix in the FY 2019-20. Overall, consumption of natural gas grew to 44% (indigenous sources by 33%, imported LNG by 10% and local / imported LPG by 1%) of the country's energy mix in FY 2019-20. Now, blend of indigenous gas and RLNG is being supplied to end consumers.

The main responsibility of gas utility companies is to supply gas to end consumers according to; (i) terms and conditions of license for transmission, distribution and sale of natural gas granted by OGRA, (ii) Performance and Service Standards as specified by OGRA, (iii) Company's Rules and (iv) Consumer Service Manual relating to complaint resolution. Both gas utility companies framed centralized complaint resolution mechanism through computerized system i.e. Customer Care & Billing (CC&B). Customer Services department has been formed for complaint handling through Customer Facilitation Centers established in major cities as well as through helpline 1199. For resolution of complaints, these are referred to concerned departments like Operations, Maintenance and Development etc.

### **4.1.2 Background**

The focus of Thematic Audit report is different from traditional transaction based auditing. Thematic audit should address specific activity / program / project etc. that was executed and implemented by the auditee organizations for attainment of their strategic objectives and goals. In perspective of this office audit mandate, quality of service delivery by gas utility companies is major area which affects the general public. If same delivery was not according to standards and stipulated terms & conditions, it can have adverse impact on end consumers depriving them of basic thing right. Further, Federal Government organizations like OGRA, Federal Ombudsman and Prime Minister's Citizen Portal (Prime Minister's Performance Delivery Unit-PMDU). are trying to safeguard public interest and protect consumers' rights from maladministration of public utility companies / agencies.

### **4.1.3 Establishing the Audit Theme**

#### **4.1.3.1 Reasons of selection**

Primary objective of establishment of the gas utility companies was to supply gas to end consumers according to terms and conditions of their license, Performance & Service Standards, Company's Rules and Consumer Service Manual. Though, Federal Government assigned the task of protecting the interests of end consumers to multiple organizations like OGRA, Federal Ombudsman Prime Minister's Citizen Portal. Audit has assessed the effectiveness of complaint resolution procedures introduced by gas utility companies. Previous audits and media reports hinted upon apprehensions of general public / end consumers relating to service delivery issues and supply of gas in violations of prevailing rules and regulations.

#### **4.1.3.2 Audit Objectives**

Audit Objectives for thematic audit were as under:

To see / review whether:

- i. Gas companies were implementing relevant terms and conditions of license granted by OGRA in letter and spirit;
- ii. Gas companies were dealing gas emergencies (fire, rupture, leakages and other hazard) within shortest possible time;

- iii. Gas companies were promptly responding to all request for service after the date of their receipt and issuing proposal letter as soon as the application fall on turn / merit;
- iv. Gas companies were maintaining adequate pressure in transmission, distribution networks and upgrading system where necessary to ensure supply of contractual volume and pressure;
- v. In case of established excess billing, refund to consumers were dispatched within 30 days;
- vi. 1<sup>st</sup> gas bill had been issued within 90 days from date of commission of gas supply of the consumer and provisional billing was not continued for more than three months;
- vii. Gas Companies were making supply of gas according to approved Gas Load Management schedule of Federal Government; and
- viii. Gas companies were executing Complaint Resolution Mechanism and Consumer Service Manual.

#### **4.1.3.3 Scope**

Audit was conducted at SNGPL & SSGC head offices and regional offices at Lahore, Faisalabad, Multan, Islamabad and Peshawar Karachi, Hyderabad, Sukkur and Nawabshah to carry out this thematic audit. Period under audit was last two FYs i.e. 2020-21 and 2021-22.

#### **4.1.4 Legal Framework governing the Theme**

- i. OGRA Ordinance, 2002;
- ii. Natural Gas Tariff Rules, 2002;
- iii. Natural Gas Licensing Rules, 2002;
- iv. Performance and Service Standards (SRO 396(I)/2019 dated February 27, 2019);
- v. Terms and Conditions of Licenses issued to SSGC and SNGPL;
- vi. Consumers Prices notified by OGRA;
- vii. Consumer Service Manual of SNGPL and SSGC; and

- viii. Instructions of GoP relating to targets of new connections, moratorium on new connections, winter load management and curtailment schedules, etc.

#### **4.1.5 Stakeholders and governmental organizations identified as directly / indirectly involved**

Important stakeholders and government organizations involved were as follows:

- i. Ministry of Energy (Petroleum Division) / DG (Gas);
- ii. Sui Northern Gas Pipelines Ltd. (SNGPL);
- iii. Sui Southern Gas Company (SSGC);
- iv. Oil and Gas Regulatory Authority (OGRA);
- v. Federal Ombudsman (Wafaqi Mohtasib);
- vi. Pakistan Citizen Portal (Prime Minister Delivery Unit-PMDU); and
- vii. General Public / End Consumers.

#### **4.1.6 Role of important organizations**

##### **Ministry of Energy (Petroleum Division)**

Petroleum Division was responsible for all matters relating to oil, gas and mineral at the national and international levels, including (i) policy, legislation, planning regarding exploration, development and production; (ii) import, distribution, marketing, transportation and pricing of all kinds of petroleum (Gas) / petroleum products and (iii) Coordination of energy policy, including measures for conservation of energy and energy statistics.

DG (Gas) being a component of Policy Wing of Petroleum Division was responsible for developing policies for gas sectors, forecasting future requirement and assessing the impact of existing policies, rules and regulations. DG Gas also process cases of gas companies relating to subsidy claims on account of supply of RLNG to 05 export sectors at concessionary rates and differential RLNG cost owing to its diversion to domestic consumers during winter season.

## **SNGPL**

SNGPL was incorporated as a public limited company in January 1964 under the Companies Act 1913, now The Companies Act 2017, and is listed on the Pakistan Stock Exchange. Direct and indirect shareholding of GoP in the company is more than 58.14%. SNGPL is the largest integrated gas company serving more than 7.22 million consumers in North Central Pakistan through an extensive network in Punjab, Khyber Pakhtunkhwa and Azad Jammu & Kashmir. The main responsibility of the Company is to supply gas to end consumers according to terms and conditions of its license issued by OGRA, Performance and Service Standards and Company's Rules / Customer Services Manual etc.

- **Complaint Resolution Procedure / Customer Services / Help Line 1199**

Customer Services Manual envisages a Customer Services Department to facilitate the consumers at Regional level through Call Centers, Complaint Centers and Customer Service Centers.

- **Call Centers**

A UAN 1199 is assigned for receiving telephone calls from the public to lodge a complaint by a third party i.e. Call Center from all regions. These complaints were then routed to respective Regions / Sub-Areas through an Oracle based Customer Care & Billing (CC&B) software.

- **Complaint Centers**

Complaint Centers deal with operational complaints received through 1199 facility or walk-in consumers at Complaint Center offices. Complaints with above ground issues were rectified by Customer Services Department, whereas complaints of low-pressure area and having underground issues were forwarded to Operation, Maintenance and Metering sections of respective regional offices.

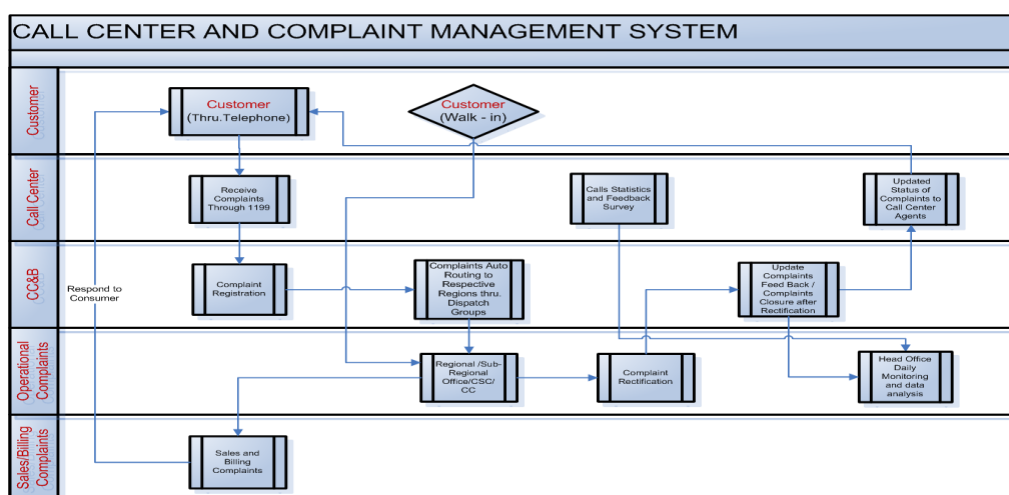
- **Customer Service Centre**

Customer Service Centre functions as “one window” and its main function is to resolve the consumers / public complaints relating to Operations, Sales, Billing and Treasury departments on the spot. If issue is not resolved at the spot, complaint will be lodged in CC&B and complaint Number will be given to the

consumer. Upon resolution of complaint, it will be posted in CC&B and complainant will be informed accordingly through automatically generated text message.

- **Complaint Rectification Procedure**

Complaint Rectification Procedure delineates that after receiving particular number of complaints from CC&B system, Emergency Duty Attendant (EDA) assigns complaints to various complaint teams which visit premises of available list and resolve the problem. In case, any complaint remained unresolved due to non-availability of material, welder, and complaint being of emergency beyond their resources requiring help from other departments etc. shall be reported to respective EDA. The complaint teams shall report the rectification status to respective EDA. After resolving the complaint of a particular consumer, the team shall have to obtain name, signature, date, time and comments from consumer as service acceptance acknowledgement. The feedback of all received complaints after rectification shall be transferred to CC&B system.



## SSGC

SSGC is a public limited company formed in 1954. Direct and indirect shareholding of GoP in the company is more than 59.74%. SSGC is engaged in transmission and distribution of gas to more than 3 million domestic, commercial and industrial customers located in its franchise areas of Sindh and Baluchistan.

The main responsibility of the company is to supply gas to end consumers according to terms and conditions of its license issued by OGRA, Performance and Service Standards and Company's Rules / Customer Services Manual etc.

SSGC has also similar Complaint Resolution Procedure on the pattern of SNGPL which has been explained in the foregoing.

### **OGRA**

OGRA was established by the Federal Government on March 28, 2002 in pursuance of the Oil and Gas Regulatory Authority Ordinance, 2002. The main objective of OGRA among others is to "protect the public interest while respecting individual rights and provide effective and efficient regulations". OGRA has established one department exclusively for Consumer Affairs namely Consumer Affairs Department comprising of Complaints and Appeal Sections to facilitate consumers of gas utility companies by handling complaints.

OGRA introduced Complaints Resolution Procedure Regulations, 2003, for handling complaints. Complaints against Gas Utility Company is entertained by the Registrar Office, OGRA, if a consumer / person fails to get desired relief from the licensee, the Registrar Office forwards the complaints to concerned Designated Officer of the Complaints Section. Designated Officers were to perform quasi-judicial functions to decide after obtaining comprehensive report / response / clarification from Gas Company and giving ample opportunity of hearing to both parties. Complaints were decided by the Designated Officers within 90 days or earlier according to applicable Regulations. The Designated Officers were placed at Karachi, Quetta, Lahore and Peshawar in addition to Head Office, Islamabad. The Appeal section comprised of techno-legal manpower as authorized to receive appeals and reviews according to OGRA Ordinance 2002, which were filed by the aggrieved person/parties.

### **Federal Ombudsman (Wafaqi Mohtasib)**

Wafaqi Mohtasib was established with a view to diagnosing, investigation, redressing and rectifying any injustice / maladministration on the part of Federal Government Agencies or their officials. The Federal Ombudsmen Institutional Reforms Act 2013 provides that the Ombudsman shall dispose of a complaint within a period of 60 days. Under the Integrated Complaint Resolution system, all those complaints which were registered directly with the Agency i.e.

SNGPL concerned but remain un-resolved for more than 30 days, are automatically transferred to the Complaint Management Information System (CMIS) of the WMS and are processed and disposed of in the normal way. The WMS has developed interface with 178 agencies through the CMIS. In addition to Integrated Complaint Resolution System, an online system to file complaints through Mobile App is also available for citizens.

### **Pakistan Citizen Portal (Prime Minister's Performance Delivery Unit-PMDU)**

Pakistan Citizen's Portal (PCP) is a Government-owned Mobile Application (available on both Android and iOS) and is being used as a tool to promote citizen-centric participatory governance and nation-wide complaints / grievance redressal mechanism. Prime Minister's Performance Delivery Unit (PMDU) was established in 2013. The primary objective of the unit is to provide citizens' an opportunity to seamlessly communicate with all government entities and have their issues resolved with priority. The Unit is to ensure that all complaints and suggestions are handled fairly and efficiently through concerned organizations. This manual is designed to help the Government Organizations to efficiently respond to the matters raised on the Portal.

### **General Public / End Consumers**

Out of total population of Pakistan of 220 million involving almost 37.5 million households in 2020, there are more than 10 million gas consumers in the country which is 27% of households. SNGPL is serving more than 7.22 million consumers Punjab, Khyber Pakhtunkhwa and Azad Jammu & Kashmir. SSGC is serving more than 3 million consumers in Sindh and Balochistan. Majority of the population of households does not have the facility of gas mainly living in rural areas.

#### **4.1.7 Field Audit Activity**

##### **4.1.7.1 Audit Methodology**

Audit methodology includes collection and review of:

- i. Record of SNGPL and SSGC relating to complaints received / resolved under central computerized system (CC&B);
- ii. Record relating to compliance of license conditions;

- iii. Record relating to compliance of Performance and Service Standards;
- iv. Complaints record of OGRA / Federal Ombudsman / PM Citizen Portal; and
- v. Annual reports of MoE/PD, OGRA and Federal Ombudsman.

**Relevant terms and condition of license for transmission, distribution and sale of natural gas granted by OGRA**

- i. Non-discrimination (Clause 12);
- ii. Emergencies / serious emergency (Clause 19);
- iii. Complaint Resolution Procedure / Consumer Service Manual (Clause 22 & 23);
- iv. Connection to distribution system and minimum service obligation (Clause 33);
- v. Security and continuity of supply (Clause 34);
- vi. Standard contract terms of retail consumers (Clause 39); and
- vii. Charges to be included in the bill (Clause 45).

**Performance and Service Standards of OGRA**

- i. Gas emergencies;
- ii. Investigation of low-pressure complaints (contractual pressure);
- iii. New connections as per turn / merit / Fast Track Connection / Urgent Fee;
- iv. Responding to meter / billing problems;
- v. Timely reconnection;
- vi. First bill and provisional billing;
- vii. Energy conservation campaign;
- viii. Leakage detection and control; and
- ix. Compensation as per procedure approved by OGRA etc.

Period under audit will be last two years from FYs 2020-21 to 2021-22.

#### **4.1.8 Audit Analysis**

##### **4.1.8.1 Review of Internal Controls**

Both the Companies; SNGPL & SSGC designed adequate internal controls by devising Complaint Resolution Procedure / Mechanism and OGRA also stipulated various terms and conditions in their licenses and also incorporated Performance and Service Standards. Apart from this, Federal Government introduced monitoring mechanism for expeditious complaint resolution through Wafaqi Mohtasib and PMDU. Scrutiny / compliance testing of complaints record showed that there were instances of violation of term and conditions, of the license and Performance & Service Standards introduced by OGRA. Non-implementation of Complaint Resolution Procedure of the companies was also observed. Some illustrative cases are given below:

##### **SNGPL**

Demand notices issued in 71,892 cases and paid prior to November 27, 2021 but meters were not installed despite being on merit in violation of Performance and Service Standards;

- Installation of Meters in 11,198 cases, Lahore (206 Cases), Faisalabad (1,945 Cases), Multan (138 Cases), Islamabad (3,676 Cases) and Peshawar including Karak (5,233 Cases) in violation of Turn / Merit Policy violation of Performance and Service Standards;
- In 500 cases, leakages were rectified with delay ranging from 4 to 366 days in violation of OGRA's Performance and Service Standards;
- Urgent Fee was received but meters were not installed in 14,000 cases in total and in 12,226 cases, urgent fee and demand notices were paid but meters were not installed;
- Delay in reconnection in 3,724 cases despite payment of dues by consumers in violation of Performance and Service Standards;
- Delay in issuance of 1<sup>st</sup> bill to consumers in 28,744 cases in violation of Performance and Service Standards resulting in provisional billing;

- Discriminatory imposition of RLNG tariff to some consumers resided in same locality while other consumers were using indigenous gas on prices notified by OGRA which were far less than that of RLNG based tariff;
- Violation of condition of license regarding security and continuity of the supply: Consumers were facing acute gas shortage in winter season every year but licensee failed to arrange sufficient supplies either from local or international sources;
- According to CC&B report, in violation of license conditions and standard contract terms of retail consumer, 44,016 cases of low pressure were observed where pressure was less than the standard pressure (0.29 psig) at 8 to 0.36 inch water column whereas in 134,769 cases were observed in which pressure was enhanced by the consumers up to 1.99 psig (55 inch water column) as compared to standard pressure of 0.29 psig (8 inch water column).

#### **SSGC**

- Incorrect charging of tampering charges set aside by Federal Ombudsman due to framing of case in violation of OGRA procedure;
- Belated action to meet serious gas emergency cases in contravention of set standards;
- Non-reporting of emergency cases in defiance of license condition;
- In action on huge number of complainants received through telephonic calls (255,744) on helpline 1199 in deviation of performance and service standards;
- Non-termination of services of defaulting consumers;
- Non-compliance of OGRA conditions of issuance of Notification of Planned work;
- Contrary to the standard for visiting the site within 36 hours, 559 field activities of investigation of pressure complaints were unattended without any reasons;
- In case of 9,174 new connections of gas supply, first gas bill was issued after lapse of 90 days in deviation of set standards; and

- 77,272 provisional bills during the two financial years (2020-21 & 2021-22) were issued instead of actual billing in contravention of the set standard.

#### **4.1.8.2 Critical Review**

Both the gas utility companies were not complying with the Performance and Service Standards of the gas companies were regulated by OGRA, vide S.R.O. dated February 27, 2019 and violated various parameters of service delivery as given in Paras under heading 2.6. Both the companies were also not implementing the terms and conditions of licenses issued by OGRA relating to discrimination among the consumers / applicants, security and continuity of supply, observance of terms of standard contract with retail consumers (maintenance of contractual pressure).

SNGPL issuing excess bills to consumers on account of adjustment charges, sticky meter charges, tampering charges and other charges amounting to Rs 94.861 million in 437 cases. This excessive billing was set aside by OGRA / Federal Ombudsman due to failure in establishing the claims with evidences by the SNGPL which showed either weakness of its internal control system or negative behavior towards the gas consumers.

Complaint resolution procedure / mechanism devised by the gas companies was not robust enough to cater for gigantic quantum of complaints especially relating to low pressure and gas stop, hence these were closed unresolved by referring to other departments for reporting to OGRA. Actually, final action taken on such complaints was neither taken within stipulated time as envisaged in Performance and Service Standards nor reasons for inconclusive complaints were recorded in the system. Further details of action taken by respective departments were not uploaded / available in centralized data (system). There were dozens of tale end areas in each city where contractual pressure was not supplied throughout the years.

Complaint resolution process of OGRA, Wafaqi Mohtasib and PMDU were effective in case of excess billing and corresponding relief to gas consumers was being provided. However, all these organizations were ineffective in complaints of gas stop / low pressure, non-provision of gas connection to consumers on merit, supply of gas on contractual pressure. Gas

companies showed their inability to mitigate gas shortage due to supply side constraints.

#### **4.1.8.3 Significant Audit Observations**

##### ***4.1.8.3.1 Discrimination in provision of gas connections in violation of License Conditions***

According to License Condition 12.1, licensee shall not exercise discrimination against or show undue preference towards any consumer, or any class of consumers.

##### **a) Supply of RLNG to consumers of the same locality in which other consumers were using indigenous gas**

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SNGPL” for the FYs 2020-21 and 2021-22, it was observed that gas companies were making supplies of indigenous gas and RLNG to end consumers which were two different products for pricing purpose, former was cheaper having more demand among the consumers whereas RLNG was costlier and not affordable to end consumers. Due to huge pendency of gas connections, applicants were forced to avail RLNG connections in the same localities where other consumers were utilizing indigenous gas connections. RLNG connections were provided to 2,896 domestic consumers during the FYs 2020-21 and 2021-22 in localities where other consumers were using indigenous gas. Two different tariffs were applicable to the gas consumers of the same localities, one was cheaper and other was costlier, thus created discrimination among the gas consumers.

The matter was reported to the management in December, 2022. The management in its reply stated that the moratorium on supply of gas to private localities was lifted in 2017 only for provision of RLNG. Therefore, network in any leftover / extension areas of locality was laid on RLNG basis. Later on, OGRA communicated the policy guideline regarding supply of indigenous gas to leftover / remaining / missing streets of the localities where indigenous gas was already provided. The company was following the same policy.

The DAC in its meeting held on January 19, 2023 directed the management to get the stated position verified from Audit besides initiating measures for removing discrimination in tariff of consumers in same localities.

**b) Violation of Article 158 of the Constitution of Pakistan, 1973 and CCI decision regarding gasification of gas producing areas (within 5 KM radius of gas field)**

According to Article 158 of the Constitution of Pakistan, 1973, (Priority of requirements of natural gas), the Province in which a well-head of natural gas is situated shall have precedence over other parts of Pakistan in meeting the requirements from that well-head, subject to the commitments and obligations as on the commencing day. Further, Ministry of Energy (Petroleum Division), Policy Wing conveyed vide letter No. NG(II)-15(27)/2018-Zamzama dated 28<sup>th</sup> March, 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.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SNGPL” for the FYs 2020-21 and 2021-22, it was observed that gas utility companies were inclined to provide gas connections in urban areas of major cities and their distribution network was also expanded accordingly. But SNGPL and SSGC did not implement the decision of provisions of the Constitution of Pakistan, and CCI decision regarding gasification of 96 and 444 localities within 5 Km radius of gas fields. Priority for gasification was accorded to consumption nodes in urban areas of major cities. Resultantly, locals of gas producing fields were engaged in direct tapping / connection from SNGPL main transmission pipelines or stop the laying of network in nearby localities of gas fields and causing loss of gas volumes.

The matter was reported to the management in December, 2022. The management in its reply stated that the matter had been taken-up with the Ministry of Energy (Petroleum Division) but the approval / release of funds was awaited.

The DAC in its meeting held on January 19, 2023 directed the management to provide complete detailed justification to Audit for verification besides pursuing the matter with Petroleum Division for release of funds.

**c) Discrimination in imposition of ban**

According to License Condition 12.1, licensee shall not exercise discrimination against or show undue preference towards any consumer, or any

class of consumers. According to Ministry of Energy (Petroleum Division) / DG Gas letter No. NG(D)-16(91)/2021-Imp-Pt dated December 03, 2021 and SNGPL memorandum vide Ref: GM(BDR:DN dated November 17, 2021, the Government while taking cognizance of wide gap in gas supply and demand had imposed moratorium on expansion in domestic gas network. Further according to SNGPL's letter vide Ref: GM(BDR):DN dated November 17, 2021, issuance of DNPL for connections based on RLNG shall continue and processing of domestic gas connection in law affected areas of Karak shall continue.

During thematic audit of "Quality of Service Delivery of Gas Companies i.e. SNGPL for the FYs 2020-21 and 2021-22, it was observed that Ministry of Energy (Petroleum Division) / DG Gas had imposed moratorium on expansion in domestic gas network on December 03, 2021. But SNGPL's letter vide Ref: GM(BDR): DN dated November 17, 2021, issued instructions that DNPLs for domestic connections would not be processed after November 27, 2021. Furthermore, SNGPL also instructed that DNPL for connections based on RLNG and processing of domestic gas connection in law affected areas of Karak would continue.

- Ban on new connections (normal) to domestic consumers only were imposed by GoP in SNGPL franchise area but new connections were opened for various areas of Karak / Bannu on the plea of law and order affected area and 2,127 connections were provided;
- No ban was imposed on new connection on RLNG basis, special domestic, commercial and industrial basis and 1,062 new connections were provided.

The matter was reported to the management in December, 2022. The management in its reply stated that the demand notices were issued keeping in view capacity of the Company / Regions to install gas connections. In order to curb the UFG losses of Karak area, the GOP had initiated special project to provide gas facility to residents of Karak & surrounding areas. In order to control the theft & unrest among the local people, these connections were prioritized. The ban on new gas connection was imposed by GOP due to scarcity of indigenous gas in the Country. However, the categories highlighted in the para (commercial and industrial) were given gas supplies on RLNG basis only, where no ban was imposed. Audit contended that the Federal Government

imposed ban without any exception and general embargo on expansion of distribution network was imposed. But management issued instructions to its field offices vide letter dated November 17, 2021 whereby exempting some categories which needs to be justified.

The DAC in its meeting held on January 19, 2023 directed the management to provide the approval / correspondence from Federal Government with reference of Karak for new connection or exemption of ban and provide proof of any exception given in government orders to any of the category or region to Audit.

**d) Undue preference in provision of new connections**

According to Planning Commission Annual Report 2020-21 and 2021-22, target for new connections for SNGPL was 405,450 and 303,050. SNGPL assigned annual target of 50,000 and 27,000 to regional office Faisalabad.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SNGPL” for the FYs 2020-21 and 2021-22, it was observed that in Faisalabad region, connections were exceeded than annual target fixed by Management for the FY 2020-21 for main Faisalabad city and Jaranwala (39,381 vs 35000) whereas small cities like Jhang connections were installed far below than annual targets (2,886 vs 7,500) despite 1,822 pending applications from 2011 to 2020 out of this, in 1,614 cases survey of premises was also conducted but meters were not installed.

Moreover, during first half of 2021-22, 74.3% of annual target for new connections (16,304 vs 21,927) were installed till December 12, 2021 in main Faisalabad city (whereas ban on new DNPL was imposed November 12, 2022). Overall, 78.6% of new connections (21,235) were installed in the Faisalabad region against annual target of 27,000 in five and a half months.

The matter was reported to the management in December, 2022. The management in its reply stated the annual target of new gas connections was allocated on regional basis and concerned region allocates to its sub-areas on tentative basis. There were certain prerequisites to install new gas connections like quantum of pending applications which may result in installation of more connection at one place than other. Audit contended that sub-areas should also

be given due priority and allocated targets be met especially new connections be ensured in cases which were on merit and processing was on final stage.

**e) Non-implementation of ban for provision of new connections**

According to Ministry of Energy (Petroleum Division) / DG Gas letter No.NG(D)-16(91)/2021-Imp-Pt dated December 03, 2021 and SNGPL memorandum vide Ref: GM(BDR:DN dated November 17, 2021, the Government while taking cognizance of wide gap in gas supply and demand has imposed moratorium on expansion in domestic gas network. Further according to SNGPL's letter vide Ref: GM(BDR):DN dated November 17, 2021, issuance of DNPL for connections based on RLNG shall continue and processing of domestic gas connection in law affected areas of Karak shall continue. Issuance of security and service line bill upon completion of contractual formalities continued till November 12, 2021 and validity for payment will be 15 days of issuance of bill. However, payment realized after validity period of the bill i.e. November 27, 2021 shall not be processed.

During thematic audit of "Quality of Service Delivery of Gas Companies i.e. SNGPL" for the FYs 2020-21 and 2021-22, it was observed that in the regional offices of SNGPL, DNPL were issued and new connections were given after ban imposed by the Government as detailed below:

- Demand Notice Proposal Letter issued after November 12, 2021 in 56 Cases in Lahore region in violation of ban imposed by Government;
- In 733 cases, DNPL issued, DN paid and meter installed under normal category in Peshawar, Abbottabad, Sialkot regions of SNGPL;
- In Faisalabad region, 69 DNPL were issued after December 11, 2021 and meters were installed despite issuance of ban and instructions from SNGPL Head Office;
- In Shiekhupura, 13 demand notices were issued and meters were installed after ban imposed by FG; and
- In 439 cases, urgent fee and demand notices both were paid by the applicants during ban period in other regional offices of SNGPL after ban period.

The matter was reported to the management in December, 2022. The management in its reply stated that ban was imposed on further issuance of domestic Demand Notices w.e.f. November 12, 2021. It was allowed to issue demand notices against UF bills paid prior to November 12, 2021. In all 56 cases of Lahore Region, urgent fee had been received before November 12, 2022 (the cut-off date).

Audit contended that the Federal Government imposed ban without any exception and general embargo on expansion of distribution network was imposed. But management issued instructions to its field offices vide letter dated November 17, 2021 whereby exempting some categories which needs to be justified.

#### ***4.1.8.3.2 Non-reporting of emergency cases in defiance of license condition***

According to Condition 19.3 the License for Transmission, Distribution and Sale of Natural Gas granted to Sui Southern Company Limited vide No. NG-001/2003, the licensee shall submit a report to the Authority, not later than 180 days from the date of issue of license and thereafter every 90 days, providing information specified in Condition 19.4 regarding the emergencies that had occurred, in the preceding 90 days and the action taken by the Licensee.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SSGC” for the FYs 2020-21 and 2021-22, it was observed that two serious emergency cases (according to Incident Notification Form dated April 18, 2021 at 19:00 hours and dated September 26, 2021 at 17:15 hours) occurred at Isra Village near Hala Naka Road, Hyderabad, and Near Army Sugar Mill Wall, Badin respectively, but the same were not reported as appeared from the Annual Report on Performance & Services Standards under License Condition No. 24.2 submitted by SSGC Hyderabad Region to SSGC Head Office for further reporting.

The matter was reported to the management in December, 2022. In a DAC meeting held on January 19, 2023, the management stated that two emergencies were attended and resolved timely, inadvertently not reported to the authority. Further all concerned were advised to ensure strict compliance of procedure and service standards set by OGRA.

The DAC directed the management to share the District wise / Division wise report to Audit and ensure timely response on emergency cases.

#### **4.1.8.3.3 Non-termination of services of defaulting consumers**

According to OGRA license for Transmission, Distribution and Sale of Natural Gas granted to SSGC Para 12.1, the Licensee (SSGC) shall not exercise discrimination against or show undue preferences towards any consumers, procedure of natural gas or any class of consumers or procedure. Termination of service for default shall be at company's discretion after expiry of notice (s) and period allowed for clearance of dues but not more than 45 days of default of non-clearance subsequent to period allowed in the notice.

During thematic audit of "Quality of Service Delivery of Gas Companies i.e. SSGC" for the FYs 2020-21 and 2021-22, it was observed that the company did not disconnect the gas connection of 132,723 consumers in FY 2020-21 despite being defaulters as detailed below:

<b>FYs</b>	<b>Total Number of defaulters</b>	<b>Number of defaulters disconnected</b>	<b>Numbers of Defaulters not disconnected</b>	<b>Non-compliance %</b>
2021-22	270,881	207,260	63,621	23%
2020-21	337,578	204,855	132,723	39%

(Source: Data provided by SSGC)

It was evident from the above that company did not fully compliance and did not disconnect the gas connections of 63,621 defaulting consumers. These kinds of practices affect the cash flow of the company resulting into increase in debtors' day by day. Further, the act of the company was in contravention to the OGRA license condition 12.1.

The matter was reported to the management in December, 2022. In a DAC meeting held on January 19, 2023, the management explained that disconnection of defaulters was an ongoing process, existing defaulters were disconnected, additional customers commit default, and process continues. Improvement of compliance was significant in the year 2021-22 after Covid-19 pandemic. Performance of compliance improved to 80% during the half year ending on December 2022 despite the rain flooding in Interior Sindh and Baluchistan in the 1<sup>st</sup> quarter.

The DAC directed the management to provide the detail of termination of defaulting customers and get the same verified from Audit.

#### ***4.1.8.3.4 Lack of security and continuity of supply***

According to license condition 34.1 issued to SNGPL by OGRA, the licensee shall at all times act to maintain the balance of its supplies and demands of natural gas such that it can maintain a continuous and reliable supply of natural gas to its existing consumers from time to time and can meet all such demands for natural gas considering all relevant conditions including historic weather conditions.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SNGPL” for the FYs 2020-21 and 2021-22, it was observed that in negation to license condition, SNGPL did not act to maintain a continuous and reliable supply of natural gas to its existing consumers and mainly relied upon Government for supply of natural gas through indigenous sources or through import of LNG. Since last many years, consumers were facing acute gas shortage in winter season every year but licensee failed to arrange sufficient supplies either from local or international sources. Number of factors involved in gas shortage and one of them was that SNGPL could not arrange import of LNG / LPG from international sources due to failure in agitating the GoP for long term G2G agreements through SNGPL. Indigenous sources were being depleted by almost 10% and demand of gas was also increasing by 5% thus widening the demand and supply gap every year but alternative measures were never initiated by SNGPL. SNGPL did not diversify its operations and relied heavily on GoP allocated resources and never took substantial initiative to fulfill its obligation / license condition.

It was pertinent to mention here that MoUs for long term G2G agreements with different countries for import of LNG by PLL were not finalized by the ministry due to non-involvement of the responsible company for continuity of supply of gas to its consumers. Moreover, despite less gas shortage in SSGC franchise area, it importing and selling LPG through its subsidiary company from several years. SNGPL was planning in current year for selling LPG through cylinders in October, 2022 which was too late because winter was approaching but SNGPL could only execute an agreement with SSGC’s subsidiary as distributor.

The matter was reported to the management in December, 2022. In a meeting with management held on January 23, 2022, the management explained that Government assigned different roles in gas / RLNG supply chain to various PSEs and SNGPL's role was to assess and communicate demand to LNG procuring Companies and system gas was allocated by Government to gas companies. Further, SNGPL had communicated projected demand for 15 years to Ministry of Energy to agitate the need for long term G2G arrangements. Company had entered into LPG cylinder filling and distribution business by initially becoming a distributor of Sui Southern LPG Limited (SLL). The activity for sale of cylinders was commenced from November, 2022. Audit contended that SNGPL should ensure assurance of gas supply to its consumers otherwise take up the matter with OGRA for revision of license condition 34, 1 and SNGPL should take new initiatives to ensure continuity and security of supply to its customers.

***4.1.8.3.5 Violations of standard contract of retail consumers regarding contractual pressure***

According to clause 11 of service contract for supply of gas to domestic consumers, natural gas shall be supplied at a pressure not exceeding 8 inches of water column above atmospheric pressure. Further, according to Clause 25 of Performance and Service Standards, 2019 introduced by OGRA, the Company shall maintain adequate pressure in transmission pipelines and distribution networks and upgrade system where necessary to ensure supply of contractual volume to its consumers at pressure agreed with them in their relevant agreements.

During thematic audit of "Quality of Service Delivery of Gas Companies i.e. SNGPL" for the FYs 2020-21 and 2021-22, it was observed that SNGPL management checked at site pressure through its regional offices and uploaded the results on CC&B. Reports generated from CC&B showed the following results:

- i) Islamabad, Faisalabad, Multan and Sheikhpura regions: In 44,017 cases pressure less than 8 inch water column (from 8 to 0.36 inches water column) than the standard pressure (0.29 psig) was supplied in violation of violation of standard contract terms of retail consumer. Due to this,

consumers were suffered with low pressure on the other hand, it may also result in less billing; and

- ii) Islamabad, Faisalabad, Multan and Sheikhpura regions: In 134,769 cases, pressure was enhanced by the consumers to 1.99 pisg at 55 inches water column than the standard pressure of 0.29 pisg at 8 inch water column in violation of standard contract terms of retail consumer. This actual site pressure was to be applied while generating monthly bills.

The matter was reported to the management in December, 2022. In a meeting with management held on January 23, 2023, the management explained that Gas pressure of all the 7.3 million domestic consumers throughout the network cannot be maintained at 8” WC all the time due to various practical constraints. The consumers located at tail ends of distribution network experience low pressure during winter season and efforts were made to resolve low pressure issue. Likewise, some consumers enhanced their gas pressure by fiddling with regulators to secure more gas and during inspection, their delivery pressure was observed more than 8” WC. These consumers were accordingly billed at actual delivery pressure which was more than 8” WC up to 55” WC.

Audit contended that punitive action needs to be taken against the consumers who enhanced their pressure which caused low pressure to other consumers. Audit further asked SNGPL to resolve the low pressure issue expeditiously besides taking up the matter with OGRA for necessary amendment in GSA with consumers to insert penalty clause in case of violation of contract.

#### ***4.1.8.3.6 Non-installation of meters despite deposit of urgent fee and demand notices by the applicants***

##### **a) Meters were not installed despite deposit of demand notices**

According to Clause 7 of Performance and Service Standards, 2019 introduced by OGRA, the company shall promptly respond to all requests for service after the date of their receipt and issue proposal letters as soon as the application fall on turn / merit. The company shall be obligated to provide gas connection to an owner or occupier of a premises on turn / merit subject to payment of gas connection charges, gas supply deposit. Further, pursuant to DG

(Gas) letter No.NG(D)-16(91)/2021-Imp-Pt dated December 3, 2021 regarding imposition of ban on expansion of distribution network, SNGPL issued instructions to its regional offices vide memorandum vide Ref: GM(BDR:DN dated November 17, 2021, cases for provision of new connections shall be processed where urgent fee has already been paid, and cases where bill for security and service line has been issued and paid by the applicant prior to November 27, 2021.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SNGPL” for the FYs 2020-21 and 2021-22, it was observed that demand notices issued in 71,892 cases and paid prior to November 27, 2021 (in all regions) but meters were not installed. Out of this, in 3,028 cases service lines were installed but connection was not provided by installing meters on these premises.

**b) Meters were not installed despite deposit of urgent fee**

In disregard to instruction issued by SNGPL, management did not install 14,000 meters despite payment of urgent Fee by the applicants prior to November 27, 2021. Further, in all regional offices of SNGPL urgent fee received in 1,774 cases but demand notices were not issued.

**c) Collection of urgent fees during ban period**

After imposition of ban, SNGPL management issued instructions vide letter dated November 17, 2021 for not entertaining the cases of urgent fee for provision of connections on fast track basis but regional offices collected urgent fee of Rs 132.300 million in 5,292 cases after November 12, 2021.

**d) Meters were not installed despite payment of both the urgent fee and demand notices by the applicants**

In disregard to instruction issued by SNGPL, regional offices of SNGPL did not install meters in 9,641 cases despite collection of both urgent fee and demand notices during October 30, 2018 to November 27, 2021.

The matter was reported to the management in December, 2022. The management in its reply stated that the Company tries its level best to provide new gas connections in minimum possible time. However, the main factors contributed in delay of installation of new gas connections were incomplete

household of the applicant, disputed premises, locality / street not yet commissioned, house under construction, locality banned by Local Government Development Authorities, road cut permissions involved from TMA / Cantonments, and non-availability of requisite material sometimes causes delay.

The DAC in its meeting held on January 19, 2023 directed the management to provide complete detailed justification to Audit for verification. During verification meeting held on January 19, 2023, management of SNGPL agreed to take up the matter with the Federal Government to relax moratorium to the extent of cases where urgent fee, demand notices or both had already been paid by the applicants before November 12, 2021 but connections were not provided. Further, urgent fee collected after imposition of ban be refunded to applicants.

#### ***4.1.8.3.7 Delay in reconnection despite payment of dues by consumers***

According to Clause 21 of Performance and Service Standards, 2019 introduced by OGRA, reconnection after payment of dues shall be done within one working day after full payment and access available. Clause 3 stipulates that all such licensees carrying out the regulated activity of transmission, distribution and sale of natural gas shall comply with the performance and service standards prescribed in these regulations.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SNGPL” for the FYs 2020-21 and 2021-22, it was observed that regional offices of SNGPL delayed reconnections after creation of field activity report (FAR) and payment of outstanding dues against standard of 01 days in violation of Performance and Service Standards of OGRA. There was huge delay even after giving one month to meet with other exigencies of work as given below:

<b>Region Name</b>	<b>No. of cases</b>	<b>Delay in days (range)</b>
Lahore	1,902	31 to 4,203
Islamabad	313	31 to 4,001
Faisalabad	1,428	31 to 3,918
Sheikhupura	883	31 to 3,765
Multan	1,452	31 to 4,089
Peshawar	7,512	31 to 4,034
<b>Total</b>	<b>13,490</b>	

(Source: Data of CC&B of SNGPL)

The matter was reported to the management in December, 2022. A meeting with management was held on January 23, 2023 the management stated that the on the request of the consumer, reconnection process was initiated. After receipt of requisite payment from the applicant, case was visited by our team for reconnection purpose. Audit pointed out that in all these cases field activity had already been generated after payment of default amount and settlement of all issues with the consumers. Audit asked SNGPL to provide specific reasons for delay in reconnection for top 100 cases in each region.

#### ***4.1.8.3.8 Delay in issuance of 1st bill to consumers in violation of set Standards***

According to Clause 27 of Performance and Service Standards, 2019 introduced by OGRA, the Company shall issue first gas bill based on actual reading within 90 days of the commissioning of gas supply. Clause 3 stipulates that all such licensees carrying out the regulated activity of transmission, distribution and sale of natural gas shall comply with the performance and service standards prescribed in these regulations.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SNGPL” for the FYs 2020-21 and 2021-22, it was observed that regional offices of SNGPL issued 1<sup>st</sup> bill with a delay of 90 to 819 days in violation of Performance and Service Standards of OGRA as detailed below:

<b>Region Name</b>	<b>No of cases</b>	<b>Delay in days (range)</b>
Lahore	3,724	90 to 366
Islamabad	16,179	90 to 741
Faisalabad	7,486	90 to 484
Shiekhupura	917	90 to 443
Multan	2,117	90 to 509
Peshawar	14,853	90 to 819
<b>Total</b>	<b>45,276</b>	

(Source: Data of CC&B of SNGPL)

The matter was reported to the management in December, 2022. A meeting with management was held on January 23, 2023 the management stated that the data had been analysed, which showed in mostly cases first bills (provisional basis) were issued to consumers timely as per OGRA service, which were later on rebilled on the basis of actual reading. Audit pointed out that first bill whether provisional or actual was issued after 90 days 4,844 cases and in

remaining 38,315 cases provisional bill were issued within 90 days and actual bill was issued with the substantial delay. This showed that provisional billing was continued up to 27 months (819 days) which was another violation of the set standards. Audit asked SNGPL to provide specific reasons in top 100 cases of each region and improve the compliance of Performance and Service Standard of OGRA.

#### **4.1.8.3.9 Provisional Billing due to non-replacement of sticky meters**

According to Clause 28 of Performance and Service Standards, 2019 introduced by OGRA, in case for any reason, meter is not read during any billing cycle, the licensee shall send a provisional bill, in accordance with the provisions of Gas Sales Agreement. Such provisional billing shall not continue for more than three billing cycles at a stretch. The amount so paid shall be adjusted against the bill raised on the basis of actual meter reading during subsequent billing cycles.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SNGPL” for the FYs 2020-21 and 2021-22, it was observed that regional offices of SNGPL issued provisional billing due to sticky meters over the years against set standards of 03 months. Some illustrative cases are detailed below:

Region	No. of Cases		Aging in months		Remarks
	2021-22	2020-21	2021-22	2020-21	
Lahore	369	654	1-7	1-13	
Faisalabad	39	479	1-10	1-7	
Multan	113	-	1-32		
Peshawar	54		1-20		June, 2022
Sheikhupura	18		1-3		June, 2021
<b>Total</b>	<b>575</b>	<b>1133</b>			
<b>Grand Total</b>	<b>1708</b>				

(Source: Data of CC&B of SNGPL)

The matter was reported to the management in December, 2022. A meeting with management was held on January 23, 2023 the management stated that the sticky meters were reported by meter readers while carrying out monthly meter reading activity. Later on, site teams, comprising of technical staff carry out inspection of all such cases and meter replacement was carried if reported anomaly was observed at site. However, quantum of provisional billing

had been reduced after concerted efforts. Audit contended that no specific reasons for provisional billing in violation of OGRA standards was given and this needs to be minimized to allowable limit of three months.

**4.1.8.3.10 Non / Late Delivery of Gas Bills to end consumers in violation of set standards**

According to terms and condition 13 (ii) of Service Contract for supply of gas for domestic use, if the first bill is not received by the consumer within 90 days of commissioning of gas supply and thereafter if any subsequent bill is not received by the consumer within 25 days after the last bill's due date. The consumers shall communicate with the company in order to ascertain his liability for payment and obtain a duplicate bill.

During thematic audit of "Quality of Service Delivery of Gas Companies i.e. SNGPL" for the FYs 2020-21 and 2021-22, it was observed that regional offices of SNGPL did not deliver gas bills in some cases and in other cases delivered gas bills with delay or delivered bills on wrong address in violation of OGRA's Performance and Service Standards as follows:

Region Name	No. of cases gas bills not delivered
Lahore	14,504
Islamabad	6,574
Faisalabad	5,260
Shiekhupura	1,250
Multan	2,737
Peshawar	1,366
<b>Total</b>	<b>31,691</b>

(Source: Data of CC&B of SNGPL)

The matter was reported to the management in December, 2022. A meeting with management was held on January 23, 2023 the management stated that resolution of billing complaints was being monitored and resolved on priority basis. Mostly, complaints were resolved within specific time frame. Audit contended that late / non delivery of gas bill was established in all cases which were later on resolved. Audit asked SNGPL to deduct payment of gas bill distribution firm and minimize the occurrence of such violation of set standards besides devising alternative mechanisms.

#### **4.1.8.3.11 Installation of Meters in violation of Turn / Merit Policy**

According to Clause 7 of Performance and Service Standards, 2019 introduced by OGRA, the company shall promptly respond to all requests for service after the date of their receipt and issue proposal letters as soon as the application fall on turn / merit. The company shall be obligated to provide gas connection to an owner or occupier of a premises on turn / merit subject to payment of gas connection charges, gas supply deposit and availability of road cutting permission if applicable. Further, Clause 35 of Standards ibid, for transparency in provision of gas connections, the Company shall provide a link on its website to the applicants enabling them to find out the status as well as merit No. of their applications.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SNGPL” for the FYs 2020-21 and 2021-22, it was observed that regional offices installed 11,193 meters without observing turn / merit policy as detailed below:

<b>Region Name</b>	<b>No. of meters installed out of turn / merit</b>
Lahore	206
Islamabad	3,676
Faisalabad	1945
Multan	138
Peshawar	5,233
<b>Total</b>	<b>11,198</b>

(Source: Data of CC&B of SNGPL)

SNGPL provided 4,723 connections to people of Kohat / Karak during the FY 2020 to 2022 without observing turn / merit i.e. December 31, 2019 displayed on website. If SNGPL had any approval from the GoP for provision of connections in Karak, then merit on website for Karak should have been displayed.

The matter was reported to the management in December, 2022. A meeting with management was held on January 23, 2023 the management stated that computerized new gas connections installation list was generated by IT department and forwarded to all Regions. The gas connections were installed as per issued merit list. In order to curb the UFG losses of Karak area, the GOP had initiated special project to provide gas facility to residents of Karak &

surrounding areas. In order to control the theft & unrest among the local people, these connections were prioritized. Audit contended that no specific reasons or facts showing that connections were installed on merit were given. Merit for Karak displayed on website was December 31, 2019 whereas SNGPL provided connections to new applicants in FYs 2020-22. If SNGPL had any approval from the GoP for provision of connections in Karak, then new merit on website for Karak should have been displayed to provide equal opportunity to all citizen of the city / town.

#### **4.1.8.3.12 Delay in rectification of leakages**

According to Clause 1 of Performance and Service Standards, 2019 introduced by OGRA, in case of gas escapes / leakages, fires or other hazardous situations, attend as quickly as possible but within one hour for uncontrolled escapes and two hours for controlled escapes.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SNGPL” for the FYs 2020-21 and 2021-22, it was observed that regional offices of SNGPL rectified 6,635 leakages / escapes with delay from 4 to 488 days in violation of OGRA’s Performance and Service Standards as follows:

<b>Region Name</b>	<b>No. of cases</b>	<b>Delay in days (range)</b>
Lahore	2,847	4 to 488
Islamabad	427	4 to 386
Faisalabad	1,663	4 to 242
Sheikhupura	1,062	4 to 162
Multan	200	4 to 366
Peshawar	436	4 to 128
<b>Total</b>	<b>6,635</b>	

(Source: Data of CC&B of SNGPL)

The matter was reported to the management in December, 2022. A meeting with management was held on January 23, 2023 the management stated that all efforts were made to ensure compliance to OGRA’s Performance and Service Standards. The teams were deployed to attend leakages / gas escapes complaints as per the timeline set forth by OGRA. The delay appeared was due to punching error by computer operators while entering closing time in System. Audit contended that no specific cases were highlighted in which punching

errors were occurred and justification of delay in rectification of leakages be given on case to case basis.

**4.1.8.3.13 Belated action to meet serious gas emergency cases in contravention of set standards**

Acceding to Sl. No. 1 of Performance and Service Standards, 2019 issued by OGRA, in case of Gas Emergencies, i.e., gas escapes, fire or other hazardous situations, 100% action required to attend as quickly as possible but within one hour for uncontrolled escapes and two hours for controlled escapes.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SSGC” for the FYs 2020-21 and 2021-22, it was observed that belated action was taken by the management in 3 cases of gas emergency in Hyderabad Region as reported by regional office to SSGC Head office as detailed below:

Sr. No.	Type of Emergency	Date of incident	Time of incident	Time of rectification	Reaction Time (Hours)	Required Time (Hours)	Delay (Hours)
1	6” damaged at Qandhari Mainwali Hotel near Loonri Kot, Jamshoro	26.11.2020	14:55	17:40	2:45	2:00	0:45
2	6” Service damaged at M/s Premium Textile Nooriabad	08.12.2020	11:30	16:30	5:00	2:00	3:00
3	6” dia S.M Gorchhi/Badin rupture at bypass road Golarchi	14.06.2022	10:45	13:00	2:15	2:00	0:15

(Source: Data provided by SSGC)

The matter was reported to the management in December, 2022. In a DAC meeting held on January 19, 2023, the management that management explained that there were certain reasons of delay i.e. availability and team movement, Traffic conditions on superhighway, Availability and team movement and Traffic conditions on superhighway and travelling time on hilly zig-zag road. There was 3 hours travelling distance from the control centre.

The DAC directed the management to take up the matter with OGRA for clarification regarding cut off time. DAC further directed the management to improve the internal response time and align the network.

#### **4.1.8.3.14 Contractual violation due to provision of low gas pressure to consumers**

According to Sr. No. 25 of Performance and Service Standards, 2019 issued by OGRA, that the company shall maintain adequate pressure in transmission pipe-lines and distribution networks and upgrade system where necessary to ensure supply of contractual volume to its consumers at pressures agreed with them in their relevant agreements.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SSGC” for the FYs 2020-21 and 2021-22, it was observed from the record maintained by Complaint Regulation Department (CRD) that a considerable number of complaints of low gas pressure in respect of domestic and other than domestic customers were received during the period under audit. However, the magnitude of affected consumers would not be limited to the same data as it was dependent upon the complaints registered on the call center 1199; whereas a large number of uneducated consumers were no access to this system due to unawareness. Details of the region-wise complaints are as follows:

Sr. No.	Region	Domestic Complaints		Other than Domestic Complaints		Total No. of Complaints	
		2020-21	2021-22	2020-21	2021-22	2020-21	2021-22
1	Karachi Central	20,781	23,669	925	960	21,706	24,629
2	Karachi Western	18,648	10,844	545	480	19,193	11,324
3	Hyderabad	4,730	3,892	207	197	4,937	4,089
4	Karachi Eastern	4,320	2,651	168	98	4,488	2,749
5	Nawabshah	1,980	2,227	22	24	2,002	2,251
6	Larkana	1,764	1,614	20	28	1,784	1,642
7	Quetta	795	741	23	22	818	763
8	Sukkur	123	306	-	1	123	307
9	Gawader	-	2	-	-	-	2
<b>Total</b>		<b>53,141</b>	<b>45,946</b>	<b>1,910</b>	<b>1,810</b>	<b>55,051</b>	<b>47,756</b>

(Source: Data provided by SSGC)

Besides the above, a number of 7,199 low pressure complaints (3,392 complaints in FY 2020-21 and 3807 complaints in FY 2021-22) were also received from the Industrial customers.

The matter was reported to the management in December, 2022. In a DAC meeting held on January 19, 2023, the management stated that customers make several complaints against the same problem which creates duplication in the CC&B System. With coordination of IT we had implemented cancellation of duplicate complaints after resolution of the initial complaint.

The DAC directed the management to improve the response time of the complaints.

#### ***4.1.8.3.15 Under performance in supply of connections to distribution system***

According to OGRA license for Transmission, Distribution and Sale of Natural Gas granted to SSGC Para 33.1, The Licensee (SSGC) shall promptly respond to all requests for service after the date of their receipts and issue proposal letters within 90 days or any other period approved by the Authority on the application by the Licensee if. Further, according to Clause 33.1.3, a domestic or commercial premises is located perpendicularly within 25 meters of the existing gas main and where the extension of gas main or reinforcement is not involved.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SSGC” for the FYs 2020-21 and 2021-22, it was revealed that the company under performed in the Supply of Connection to Distribution System. During the FY 2021-22, the company provided 54,427 connections within stipulated time to the Consumers, out of 92,187; hence, the percentage of underperformance for the year was 41%. Similarly in the previous FY 2020-21, the company provided 86,865 connections within stipulated time to the Consumers, out of 165,460; hence, the under percentage of underperformance for the year was 48%. The consumers’ wise details and percentage of the provided connection were as follow:

<b>Type of consumer</b>	<b>Unfeasible</b>	<b>Feasible</b>	<b>Connections provided within target date</b>	<b>Connections provided after target date</b>	<b>Connections not provided</b>	<b>Non-compliance (%age)</b>
2021-22	2,294	92,187	54,427	21,922	15,838	41%
2020-21	1,364	165,460	86,865	42,632	35,963	48%

(Source: Data provided by SSGC)

The matter was reported to the management in December, 2022. In a DAC meeting held on January 19, 2023, the management explained that at present there was moratorium on new connection from October, 2021. However, there were some other factors for delays; customers were required to provide Road Cutting Permission, and delay in obtaining of these permissions, not allowed by customers due to family disputes, due to tender cancellation and issues with supplier in quality.

The DAC directed the management to improve service delivery. DAC further directed the management to record all the reasons due to which particular cases were not considered and share with Audit.

#### **4.1.8.3.16 Non-compliance of OGRA conditions of issuance of Notification of Planned work**

According to OGRA License for Transmission, Distribution and Sale of Natural Gas granted to SSGC Para 36.1, when the Licensee (SSGC) is required to interrupt the provision of its distribution service in order to perform work involving maintenance, expansion and/or modification of its distribution system it shall intimate such interruption to the affected customers. The intimation may be made by publication in one locally distributed English and one locally distributed Urdu daily newspaper circulated in the affected area. Such intimation must be given not less than forty eight (48) hours prior to interruption of the supply of natural gas and must indicate the limits of the area affected, the date, hours and duration of the interruption of service and the approximate hour/day when supply will be restored.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SSGC” for the FYs 2020-21 and 2021-22, it was observed that the company did not issue notifications of planned work to gas consumers as detailed below:

<b>FYs</b>	<b>Numbers of Job done</b>	<b>Notification Issued on or before time</b>	<b>Notification issued after time</b>	<b>Notification not issued</b>	<b>Non-Compliance (%age)</b>
2021-22	67,753	46,231	-	21,522	32%
2020-21	66,471	46,755	314	19,402	30%

(Source: Data provided by SSGC)

The matter was reported to the management in December, 2022. In a DAC meeting held on January 19, 2023, that Management explained that 39,685

notifications were issued on time. 19,402 notifications were not issued on time in the year 2020-21 whereas in the year 2021-22, 38,872 notification were issued on time, 21,522 were not issued on time.

The DAC directed the management to submit revised reply incorporating specific reasons for non-provision of connection to Audit.

***4.1.8.3.17 Persistent Low Pressure due to non-completion of Operational Phases and Segmentation of distribution network***

According to Clause 25 of Performance and Service Standards, 2019 introduced by OGRA, the Company shall maintain adequate pressure in transmission pipelines and distribution networks and upgrade system where necessary to ensure supply of contractual volume to its consumers at pressure agreed with them in their relevant agreements. Further, according to Operational Phase Policy Guidelines, 2020 introduced by SNGPL, operational phases are laid / constructed in order to eradicate / alleviate low pressure problems of existing consumers in a particular locality, towns and / or cities due to continuous expansion of consumers on distribution network. Operational Phase is laid where severe persistent low pressure / no gas issues are being observed due to undersized distribution network whereas overall distribution network of the city is adequate enough to cater connected loads of the whole city.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SNGPL” for the FYs 2020-21 and 2021-22, it was observed that regional offices of SNGPL could not be able to resolve low pressure complaints because in major cities various localities were become tale end and gas could not be supplied at contractual pressure and complaints received regarding low pressure / gas stop throughout the year irrespective of seasonal changes. There were low pressure areas / tale end localities in Lahore, Faisalabad and Islamabad, Multan (walled city and its surroundings) due to limitations or deterioration of distribution network requiring permanent solution.

Operational phases were identified after carrying out pressure survey of distribution network and it was observed by survey teams of SNGPL that due to under-sizing / distant feeding of existing network, low pressure problem was faced. Operational phases were proposed to overcome low pressure issues and system pressure optimization. 84 operational phases planned, 10 were executed

and 74 were pending in various regional offices during the period under audit as given in Annexure-7.

In addition to this, projects for segmentation of distribution network were initiated in all regions, in 1<sup>st</sup> phase, segmentation of 39 looped SMS in 11 clusters were planned / approved in 2020-21 for execution during 2022-23. Moreover, the RM&UGCC in its 50<sup>th</sup> meeting held on January 28, 2022 advised management to isolate industrial consumers in Faisalabad, Islamabad and Multan regions, isolation of 4 clusters of industrial SMS (isolation of industrial consumers with domestic consumers). Progress on this segmentation of looped SMSs and isolation of industrial consumers was also slow and most of these were pending due to NOC issues.

Moreover, SNGPL undertaken 5 transmission projects for System Augmentation of cities such as Lahore, Bahawalpur, Mardan / Peshawar etc. in 2020 to 222. Out of these five two were stated to be completed whereas remaining three were in progress despite lapse of more than one year of their completion period. Type-2 Operational phases as envisaged in Guidelines ibid, were required to be initiated in Lahore, Multan, Faisalabad, Rawalpindi / Islamabad, Peshawar to provide multiple gas sources to the city, laying of larger dia distribution pipelines and transmission spurs in the outskirts of the cities, up-gradation of SMS, segmentation / segregation of network.

The matter was reported to the management in December, 2022. A meeting with management was held on January 23, 2023 the management stated that out of total 84 operational phases, only 24 could be completed and remaining 60 were in process. The Company initiated System Augmentation Projects (operational phases) to overcome low pressure complaints. The Company was committed to complete all these projects at the earliest in order to achieve desired results. But due to involvement of external agencies and higher NOCs charges, the projects may get delayed beyond our targeted timelines. However, we were still putting all out efforts for issuance of requisite NOCs at the earliest and accomplishment of assigned tasks.

Audit recommends SNGPL that completion reports may be shared in case of 24 completed operational phases and expedite the completion of remaining operational phases, segmentation of distribution network and isolation of industrial consumers and system augmentation projects.

#### ***4.1.8.3.18 Non-issuance of first gas bill within ninety days after commissioning of gas supply***

According to Sr. No. 27 of table under Regulation 4 of Performance and Service Standards issued by OGRA vide S.R.O. 396(I)/2019 dated February 27, 2019 action required for performance in respect of issuance of 1st bill after commissioning of gas supply that the Company (SSGC) shall issue first gas bill based on actual meter readings within ninety (90) days of the commissioning of gas supply of the consumer.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SSGC” for the FYs 2020-21 and 2021-22, it was observed that in 9,174 cases (4,062 of 2020-21 and 5,112 of 2021-22) first gas bill was issued after 90 days of the commissioning and installation of the gas bill. The delay was worked out on the basis of date of bill which was taken as 16<sup>th</sup> day of the billing month after discussion with the relevant department of the Company since the record/data mentioned only the billing month. The delay resulted into non-compliance of the OGRA regulations as detailed below:

Sr. No.	Region	Domestic Customers	
		2020-21	2021-22
1	Gawadar	03	15
2	Hyderabad	418	406
3	Karachi Central	887	964
4	Karachi Eastern	457	682
5	Karachi Western	882	1,227
6	Larkana	464	616
7	Nawabshah	97	122
8	Quetta	406	900
9	Sukkur	429	164
10	Bulk Consumers	14	09
11	Commercial / SPRT consumers	05	07
<b>Total</b>		<b>4,062</b>	<b>5,112</b>

(Source: Data provided by SSGC)

The matter was reported to the management in December, 2022. In a DAC meeting held on January 19, 2023, the management explained that the billing process starts after completion of all formalities to get new connection. The sales department was responsible for all the activities till the customer's gas was started and commission advice was provided / feed in the system. The Customer details were provided in the database i.e. correct address, nearest meter

number, route order etc. In the year 2020-21 total meter installed 110,318, out of these 106,256 customers were issued actual bill within 30 to 90 days i.e. 96% of the total installed meters and in the year 2021-22 total 81,580 meters installed, out of these 76,468 customers actual bill issued within 30 to 9 days i.e. 94%.

The DAC directed the management to submit financial impact of the late submission of bills within three months.

#### ***4.1.8.3.19 Issuance of Provisional bills instead of actual reading billing***

According to OGRA Licence Condition No. 24.2 Issuance of Provisional Bills: in case for any reason, meter is not read during any billing cycle, the licensee shall send a provisional bill, in accordance with the provisions of Gas Supply Contract / Gas sales Agreement. Such provisional billing shall not continue for more than three billing cycles at a stretch. The amount so paid shall be adjusted against the bill raised on the basis of actual meter reading during subsequent billing cycles.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SSGC” for the FYs 2020-21 and 2021-22, it was observed that in overall Sindh and Balochistan, the company issued 43,207 provisional bills in FY-2021-2022, and 34,065 provisional bills in preceding FY 2020-2021 after completion of three months billing cycles which was clear violation of above mentioned rule. The ageing of provisional billings is as follows:

<b>Ageing of Provisional Billing FY-2021-22</b>								
<b>Region</b>	<b>4-6 Months</b>	<b>7-9 Months</b>	<b>10-12 Months</b>	<b>13-24 Months</b>	<b>25-36 Months</b>	<b>37-48 Months</b>	<b>Above 48 Months</b>	<b>Grand Total</b>
Karachi	6,909	3,884	3,053	5,595	2,246	1,510	1,129	24,326
Hyderabad	1,217	335	93	131	38	12	8	1834
Larkana	704	612	777	293	12		3	2401
Nawabshah	210	96	26	14		1		347
Sukkur	239	119	122	278	68	65	36	927
Gawader	2	1	3	1	2		1	10
Quetta	4,915	2,183	1,258	2,872	938	503	693	13362
<b>Total:</b>	<b>14,196</b>	<b>7,230</b>	<b>5,332</b>	<b>9,184</b>	<b>3,304</b>	<b>2,091</b>	<b>1,870</b>	<b>43,207</b>
<b>Ageing of Provisional Billing FY 2020-21</b>								
Karachi	6019	2828	1778	4961	2526	1106	719	19937
Hyderabad	972	402	156	336	45	9	1	1921
Larkana	521	223	92	45				881
Nawabshah	193	45	14	19	4			275

Sukkur	273	217	133	197	96	31	41	988
Gawader	9	7	2	36	12	2	2	70
Quetta	3497	1281	995	2298	830	952	140	9993
<b>Total:</b>	<b>11484</b>	<b>5003</b>	<b>3170</b>	<b>7892</b>	<b>3513</b>	<b>2100</b>	<b>903</b>	<b>34.065</b>

(Source: Data provided by SSGC)

It was evident from the above that continuous billing on provisional basis for three billing cycles at a stretch was in contravention to the OGRA license conditions 24.2. Audit needs justification under which circumstances the company was unable to comply with OGRA Licence condition 24.2 in respect of issuance of provisional billing.

The matter was reported to the management in December, 2022. In a DAC meeting held on January 19, 2023, the management explained that Billing Department was using its all available resources to obtain monthly meter read of each and every customer through whole franchised area. Despite tireless efforts, company could not obtain reading of above customers due to Covid-19 outbreak during FY 2020-2021 and dismissal of sacked employees during FY 2021-2022.

The DAC directed the management to enquire the matter and submit report to Audit within two months.

#### **4.1.8.3.20 In-action on HHU complaints**

According to Para 9.6 of Billing Manual of SNGPL, if a meter reader was unable to note meter reading due to any reason, alphabet “N” (No reading) will be fed in the column adjacent to meter reading column in the meter reading book as a result of which a provisional gas bill will be issued to the consumer. Meter reader will report the above discrepancy to his Incharge who in turn will take necessary steps for rectification. In case of HHUs, respective code regarding provisional, minimum and complaints be entered in HHU for subsequent report generation and necessary action by concerned department. Further, according to Clause 11 of Performance and Service Standards, 2019 introduced by OGRA, estimating procedures for billing, and procedure should favour neither the Company nor the consumer. Differences between actual and estimated gas usage will be settled / resolved according to contractual obligations between the Company and consumer.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SNGPL” for the FYs 2020-21 and 2021-22, it was observed that huge

number of HHU complaints / discrepancies relating to commercial use, direct use, EVC display off, sticky meters, gas leakages, generator in use, illegal meters, meters going reverse, reading mismatch, sticky / stopped meters, etc. reported by meter readers of regional offices Lahore, Islamabad, Peshawar, Faisalabad and Multan (Annexure-8). Billing Manual of SNGPL and Performance and Service Standards of OGRA required regional offices of SNGPL to take above-mentioned actions keeping in view the contractual obligations with the consumers and in the best interest of the Company. But no details of actions taken or not by the respective departments of SNGPL had been provided yet till close of audit on December 12, 2022. Such complaints as mentioned in the above table reported by meter readers were also made by consumers but absence of any monitoring mechanism to check fate of complaints / discrepancies as raised by consumers / meter readers under the prevalent complaint resolution procedures.

The matter was reported to the management in December, 2022. A meeting with management was held on January 23, 2023, the management stated that since, huge number of cases had been reported, therefore consumer wise sample be taken so that response may be arranged from relevant sections of the regions. Audit contended that consumer-wise data had already been provided to regional offices but no details of action taken against HHU complaints was provided. SNGPL was asked to devise a mechanism to monitor the HHU complaints, details of action taken be provided to Audit besides sharing missing data relating to “New Meter Found” expeditiously.

#### ***4.1.8.3.21 Effectiveness of complaint resolution procedure***

Overall Complaint Resolution Procedure comprised of Gas Companies’ Call Centers (1199) and walk-through visits / Complaint Centers and complaint rectification procedure through Customers Services Department and CC&B, on failure in achieving desired services or unsatisfactory response by Gas Companies, Consumers approach OGRA and Wafaqi Mohtasib for resolution of their complaints. Another forum i.e. Pakistan Citizen Portal / PMDU is also available to consumers for resolution of their complaints and achievement of desired services from Gas Companies. Overall Complaint Resolution Procedure was lacking effectiveness especially in case of policy related issues / complaints.

#### ***4.1.8.3.22 Unjustified closure of unresolved complaints relating to low pressure and gas stop***

According to Para 5.2.2 of Customer Services Manual, Complaint Rectification Procedure delineates that after receiving particular number of complaints from CC&B system, every team shall visit each premises of available list and shall resolve the problem. The complaint teams, after attending all the assigned complaints, shall report the rectification status to respective EDA. After receiving status of assigned complaints from respective teams and complaint centers, EDA shall make entries in CC&B to complete the field activity.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SNGPL” for the FYs 2020-21 and 2021-22, it was observed that Customers Services Department provided reports generated from CC&B relating to centralized data of complaints received during the period which showed that huge number of complaints mainly relating to low pressure / no gas or stoppage of gas were closed by giving the remarks “closed unresolved and referred to other departments” for action as follows:

FYs	Lahore	Faisalabad	Multan	Islamabad	Peshawar	Sheikhupura	Total
2020-21	37,154	12,735	16,701	8,130	255	9,724	<b>84,699</b>
2021-21	61,571	18,044	26,367	9,557	319	20,759	<b>136,617</b>
	<b>98,725</b>	<b>30,779</b>	<b>43,068</b>	<b>17,687</b>	<b>574</b>	<b>30,483</b>	<b>221,316</b>

(Source: Data of CC&B of SNGPL)

No further details of work done or action taken by other departments were available in centralized complaint data of CC&B. However, when details of these complaints were shared with the Operation, Maintenance, Metering and Development sections of regional offices. Partial record was provided showing requisite action had been taken in some cases whereas in remaining cases complaints were closed but position relating to low pressure areas remained the same due to delay in replacement of old network at tale end areas, pendency in operational phases, reduction in supply of gas and shortage of gas due to demand supply gap. Reportedly, when complaints were received in Operation / Maintenance / Metering / Development sections of regional offices, new IDs were generated and entered in CC&B with new IDs without establishing any link with initial complaint. Resultantly, in centralized data no details of work done by other departments were available and fate of huge complaints (221,316 only

relating to low pressure and gas stop) remained unknown as evident from above table.

The matter was reported to the management in December, 2022. A meeting with management was held on January 23, 2023, the management stated that all the complaints were initially visited by CS Department. The CS teams arrange rectification including complaints of nature which involves meter replacements, regulator replacements, leakages etc. The initial complaints were closed, and new complaint number was allotted. Internal timelines had also been defined against complaints which were complied with. In order to enhance system efficiency, matter had been taken up with IT/MIS Department to devise a system where instead of closing complaint a link was developed, and all actions were lodged against same complaint number till the final closing of complaints.

Audit recommends expeditious completion of the aforesaid system by IT department besides providing the fate of low pressure complaints showing details of action taken by the other departments.

#### ***4.1.8.3.23 Absence of Complainant's Feedback in CC&B***

According to Para 5.2.2 of Customer Services Manual, Complaint Rectification Procedure delineates that after receiving particular number of complaints from CC&B system, every team shall visit each premises of available list and shall resolve the problem. After resolving the complaint of a particular consumer, the complaint team shall have to obtain name, signature, date, time and comments from consumer as service acceptance acknowledgement. The feedback of all received complaints after rectification by complaint rectification team shall be transferred to CC&B system.

During thematic audit of "Quality of Service Delivery of Gas Companies i.e. SNGPL" for the FYs 2020-21 and 2021-22, it was observed that Customer Services Department of regional offices of SNGPL attended 477,543 complaints but no feedback from complainants was entered / uploaded in CC&B as envisaged in the Customer Services Manual.

The matter was reported to the management in December, 2022. A meeting with management was held on January 23, 2023, the management stated that as per the approved manual of the CS Department the referred clause was not part of Company's procedures. Lodging feedback in CC&B was not the part

of approved procedures/manual. Audit pointed out that feedback showing customer satisfaction was the essential part of all complaint resolution procedures as PMDU and Audit recommends to formulate a mechanism for seeking customer's feedback and its uploading on CC&B be ensured.

#### ***4.1.8.3.24 Unresolved complaints due to issues at company level***

According to Para 5.2.2 of Complaint Rectification Procedure of CSM delineates that after receiving particular number of complaints from CC&B system, every team shall visit each premises of available list and shall resolve the problem. In case, any complaint remained unresolved due to non-availability of material, welder, and complaint being of emergency beyond their resources requiring help from other departments etc. same shall be reported to respective Emergency Duty Attendant (EDA).

During thematic audit of "Quality of Service Delivery of Gas Companies i.e. SNGPL" for the FYs 2020-21 and 2021-22, it was observed that 11,653 complaints pertaining to low pressure & gas stop, wrong billing, shifting of service line and uplifting of CMS / service valve etc. were closed unresolved with remarks issue at company level without giving relief to end consumers / complainants according to CC&B reports.

The matter was reported to the management in December, 2022. A meeting with management was held on January 23, 2023, the management stated that all complaints were attended as per the SOP of the company. However, in chronic cases involving tail end localities, old network etc. various steps were taken including SRP, looping of network, replacement of defected segments, proposals and installation of DRSs etc. These steps which were taken to provide relief to the consumers involves various steps and approvals which requires time and hence the delay in complete rectification of the problem. Audit asked SNGPL to provide current status of complaints closed due to issue at company level within a week.

#### ***4.1.8.3.25 Failure in resolving complaints within OGRA standards***

According to Clause 3 of Performance and Service Standards, 2019 introduced by OGRA, all such licensees carrying out the regulated activity of transmission, distribution and sale of natural gas shall comply with the performance and service standards prescribed in these regulations. Required

performance including response time had been given for each action or Performance and Service Standards by OGRA.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SNGPL” for the FYs 2020-21 and 2021-22, it was observed that Customer Services Departments of regional offices of SNGPL could not resolve various complaints within stipulated time as set out in the Performance and Service Standards of OGRA. According to CC&B reports, 411,358 complaints were resolved after target dates / time and were not within OGRA standards.

The matter was reported to the management in December, 2022. A meeting with management was held on January 23, 2023, the management stated that complaints were attended by company as per the OGRA’s standards. All out efforts were made to ensure compliance with the timelines. However further steps shall be taken in future to ensure enhanced performance and complaints resolution to standard. Audit recommends SNGPL to ensure compliance of Performance and Service Standards set by OGRA, and take up the matter with OGRA in some categories of complaints due to operational constraints for revision of timelines / standards.

#### ***4.1.8.3.26 Unassigned complaints as per CC&B***

According to Para 5.2.2 of Complaint Rectification Procedure of CSM delineates that after receiving particular number of complaints from CC&B system, every team shall visit each premises of available list and shall resolve the problem. In case, any complaint remained unresolved due to non-availability of material, welder, and complaint being of emergency beyond their resources requiring help from other departments etc. same shall be reported to respective Emergency Duty Attendant (EDA).

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SNGPL” for the FYs 2020-21 and 2021-22, it was observed that 7,745 complaints relating to various regional offices were remained unassigned / opened and could not be closed / resolved till August 5, 2022. These 7,581 complaints were lodged during July, 2021 to June, 2022 whereas 164 complaints were lodged during July, 2020 to June, 2021 and these complaints were older than 15 months.

The matter was reported to the management in December, 2022. A meeting with management was held on January 23, 2023, the management stated that the complaints were assigned directly to the specific region at the time of lodgement either directly at Company's Offices or through Call Center. Audit asked SNGPL to provide the current status of all unassigned complaints pointed out by Audit.

#### **4.1.8.3.27 Non-resolution of low pressure complaints by SSGC**

According to Natural Gas Consumer Service Manual Duties / Responsibilities of Service Centre and Complaint Centre Para-2, to receive and record all incoming complaints of customers in a proper and systematic manner through state-of-the-art computerized Complaint Management System. Para-03 to attend/rectify all complaints within a minimum possible response time by utilizing all available (Company's) resources to the entire satisfaction of the customers.

During thematic audit of "Quality of Service Delivery of Gas Companies i.e. SSGC" for the FYs 2020-21 and 2021-22, it was observed that numbers of 47,756 complaints were received by SSGC on account of Low Pressure of Gas through various consumers in financial year 2021-22. However, 16,095 complaints were resolved. 1,176 complaints were cancelled and 104 were still pending in its complaints record. Similarly, 55,051 complaints of low pressure were received by SSGC in FY 2020-21. However, 15,229 complaints were resolved, 2,318 complaints were cancelled and 18 complaints were still pending in its record. The details are as under:

FYs	Total Numbers of Complaints Received	Complaint Cancelled	Available Complaints	Complaint Pending as per SSGC record	Complaint resolved	Forwarded to DSM department	Pending Complaints %
	A	B	C	D	E	F	G
2021-22	47,756	1,176	46,580	104	16,095	30,386	65%
2020-21	55,051	2,318	52,733	18	15,229	39,822	76%

(Source: Data provided by SSGC)

The matter was reported to the management in December, 2022. In DAC meeting held on January 19, 2023, the management explained that low gas pressure complaints were forwarded to distribution department for resolution. Many times, the customers made repeated complaints and those complaints were cancelled on account of duplicate nature of complaints in the system as work on

the initial complaint was carried out or was under process. In certain cases, due to emergency or maintenance work in the main pipelines, gas supply of that area was temporarily terminated and was resumed after completion of work and therefore the complaints registered during this period were cancelled and in case any complaint that was not cancelled, goes pending in the system which actually was completed.

The DAC directed the management to provide the complete detail to Audit for verification.

#### ***4.1.8.3.28 Non-consideration of complainant feedback by the company***

According to Natural Gas Consumer Service Manual: Flow chart of complaint resolution i.e. (i) Customers lodges a complaint, than (ii) complaint is acknowledge at CFC, Sub-zone, Zone and Region, (iii) Complaint is resolved on spot or forwarded to concerned department, (iv) concerned department resolves the complaint, (v) concerned department completes task, (vi) resolved complaint is acknowledged to maintain the record, (vii) complaint closed, (viii) Customer is advised/satisfied appropriately.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SSGC” for the FYs 2020-21 and 2021-22, it was observed that in overall Sindh and Balochistan, 219,286 customers’ complaint were marked completed by the CRD without obtaining the feedback of the complainants during the financial year 2021-22 and similarly, in preceding financial year 2020-21, 232,515 customers’ complaints were marked completed by the Company but customers’ feedback was not recorded in complaint register.

The matter was reported to the management in December, 2022. In DAC meeting held on January 19, 2023 the management explained that previously feedback was obtained manually through call centre agents, especially for leak complaints. However, after out-sourcing of Call Centre, feedback calls were obtained from customers after completion of complaints and feedback data was forwarded to CRD. For unsatisfied feedback, the complaint was re-visited to check the reason and resolve the same. The main reason behind unsatisfied feedback was due to low gas pressure due to seasonal impact and the same would reduce with change in season.

The DAC directed the management to improve the system.

#### **4.1.8.3.29 E-Kachahri at MD levels**

SNGPL introduced another open forum to consumer in the shape of E-Kachahri at MD level at head office level. Complaints lodged through 1199 and entered in CC&B but could not be resolved timely or consumers were not satisfied, the complainants approach E-Kachahri both at GM and MD level. Issues of individual nature like change of name, shifting of CMS / meter, reconnection, non/late delivery of bills, sticky meters and provisional billing are resolved but policy related issues like provision of new connection, low pressure areas, operational phases, non-availability of line, etc. remained unresolved and closed with the remarks “Relief cannot be granted” in 62 cases and “Partial relief grant” in 25 cases out of total 134 complaints relating to Sales / BD sections of regional office, Lahore.

The matter was reported to the management in December, 2022. A meeting with management was held on January 23, 2023, the management stated that E-Kachahri at MD level was an initiative by PMDU cell. It was conducted each month at Head Office with an aim to provide common consumer direct approach to the Management of the Company. Complaints received through E-Kachahri were attended as per the directions of PMDU Manual. The PMDU Manual directs the Company to attend/resolve all complaints as per the laid down procedures of SNGPL. Audit contended that in case of reconnection, Low Pressure and Manual Application to Computerized Application the remarks “Relief Cannot Be Granted” were not the reasonable remarks to complaint. Specific reasons may be recorded against each complaint in E-Kachahri.

#### **Oil and Gas Regulatory Authority (OGRA)**

##### **4.1.8.3.30 Excess billing and tempering charges imposed on consumers set aside by OGRA**

According to section 3 of the Complaint Resolution Procedure (for Natural Gas) Regulations, 2003, any person may submit an application with the Registrar for: (a) any act or thing done or omitted to be done by a licensee in violation of the ordinance/rules, or terms and condition of the license; (b) non-compliance by the licensee with the service standards in the areas including but not limited to billing, undue delay in connection and disconnection of service, metering; (c) discriminatory practices of the licensee.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SNGPL” for the FYs 2020-21 and 2021-22, it was observed that regional offices of SNGPL charged excess bills, wrong adjustment / tampering (theft) charges aggregating amount of Rs 91.662 million to 437 consumers during the period under audit. These consumers lodged complaints with SNGPL which did not agree with the consumers’ stance whereas OGRA set aside these excess charges because the Company could not produce any plausible reasons and evidence in its support. OGRA directed SNGPL to initiate disciplinary action against persons involved in excess billing due to violation of Company policy and GM billing was advised to take a notice of such unjustified booking to the consumers.

The matter was reported to the management in December, 2022. A meeting with management was held on January 23, 2023, the management stated that all billing amount, tampering Charges and sticky meter charges were booked as per company’s policy / procedure. The Company offered review option to the consumers to redress the complaints at early stage. In this regard, rebate in some of the cases had been given in compliance of decision / findings by the OGRA or Wafaqi Mohtasib on case-to-case basis. However, appeals were filed by the Company in all those cases where company finds itself deprived of its due charge on merit. Audit contended that if all charges were booked as per company policy / procedure and OGRA set aside the booked charges, then company policies / SOPs were required to be revisited under OGRA’s decisions. Audit asked SNGPL to provide copies of appeal and their current status in 437 cases and in case appeals were not filed, action against responsible personnel be taken for excess billing and wrong billing to customers.

#### ***4.1.8.3.31 Non-observance of Performance and Service Standards by SNGPL***

According to section 3 of the Complaint Resolution Procedure (for Natural Gas) Regulations, 2003, any person may submit an application with the Registrar for: (a) any act or thing done or omitted to be done by a licensee in violation of the ordinance/rules, or terms and condition of the license; (b) non-compliance by the licensee with the service standards in the areas including but not limited to billing, undue delay in connection and disconnection of service, metering; (c) discriminatory practices of the licensee.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SNGPL” for the FYs 2020-21 and 2021-22, it was observed that OGRA decided 280 complaints against the Company with the remarks that SNGPL did not observe Performance and Service Standards because either failed to provide services or delayed the services:

- i. Installation of meters at wrong / fake address, premises or place;
- ii. Provision of gas connection to localities despite non-existence of pipeline;
- iii. Non/late delivery of gas bills to consumers;
- iv. Unjustified imposition of LPS;
- v. Failure in supply of gas at contractual pressure and consumers faced low pressure situation;
- vi. Issuance of 1<sup>st</sup> bill after 90 days to avoid prolonged provisional billing;
- vii. Delay in provision of gas connection;
- viii. Rectification of leakages after stipulated time;
- ix. Delay in reconnection;
- x. Incorrect disconnection;
- xi. Persistent low pressure areas and no gas; and
- xii. Non-uploading of manual applications lodged prior 2009 on CC&B.

Despite repeated non-observance of Performance and Service Standards, OGRA did not invoke any punitive action against the Company, however, in 12 cases OGRA directed to investigate / inquire to fix the responsibility against the concerned official of the Company and take strict cognizance of the official involved in installation of meter at fake place. In certain cases, OGRA observed that SNGPL did not upload manual applications in CC&B prior to 2008 and consumers did not come under turn / merit, OGRA decided that it was the responsibility of SNGPL to upload manual application data on CC&B to maintain proper turn / merit.

The matter was reported to the management in December, 2022. A meeting with management was held on January 23, 2023, the management stated

that company makes all out efforts to resolve consumer complaints at preliminary level, however, in certain cases, relief cannot be granted as per expectation of the applicants due to company's laid down policies. In such cases, applicants approach other forums like OGRA etc. for resolution of their issue. Upon receipt of such cases from OGRA, the matter was again examined and remedial action(s) were taken as per the directions of OGRA and company policy. Audit contended that OGRA issued specific directives and compliance relating thereto be ensured and shared with Audit.

#### ***4.1.8.3.32 Non-resolution of OGRA complaints***

According to SSGC's Complaint Resolution Procedure Annexure-C which states that if the complainant continues to feel unsatisfied with the redress provided by SSGC, he/she may submit his/her complaint to OGRA under clause 4 (c) of Complaint Resolution Procedure Regulations, 2003. The said complaint is forwarded by OGRA to SSGC's MD/GM (RA)'s office. The GM (RA)'s office sends the complaint to relevant department for investigation and through examination in accordance with SSGC's Complaint Resolution Procedure. After necessary checking/investigation a comprehensive response is prepared and submitted to OGRA through Regulatory Affairs department.

During thematic audit of "Quality of Service Delivery of Gas Companies i.e. SSGC" for the FYs 2020-21 and 2021-22, it was observed that the management did not resolve 182 OGRA complaints against SSGC filed in financial year 2021-22 by various consumers. The 182 complaints were pending out of which 46 Complaints pertained to Karachi Region, 36 Hyderabad, 14 Nawabshah and rest of 86 pending complaints pertained to other regions of Sindh and Balochistan. These complaints were pending from the month of April to October; the reason of pending complaints mentioned by the Management was that these complaints were under review by concerned department for onward submission to OGRA.

Moreover, 898 OGRA complaints relating to SNGPL for the FY 2021-22 were still unresolved due to pending actions on the part of regional offices of SNGPL; Lahore (663 complaints), Multan (88 complaints), Peshawar (100 complaints), Islamabad / Rawalpindi (47 complaints).

The matter was reported to the management in December, 2022. In DAC meeting held on January 19, 2023 the management explained that out of 182

pending OGRA complaints mentioned by the Auditor, responses of 158 Nos. of complaints have been submitted to OGRA, rest 24 Nos. of complaint mentioned were pending.

The DAC directed the management to expedite the resolution of complaints.

#### ***4.1.8.3.33 Wafaqi Mohtasib / Federal Ombudsman***

According to Annual Report 2020-21 of Wafaqi Mohtasib, the complaints against SNGPL registered 15.35% increase, from 7,782 in the year 2020 to 8,978 in the year 2021. Complaints against SSGC also increased from 7,328 in 2020 to 9,287 in 2021, registering 26.7% increase. The cumulative figure pertaining to number of complaints against both SNGPL & SSGC filed at O/o Federal Ombudsman was 18,265 in the year 2021 as compared to 15,110 in the year 2020 indicating a 20.8% increase. These complaints were generally regarding excessive / wrong / incorrect and detection billing, delay in providing connection / shifting and replacement of defective meters etc. The other complaints which were lesser in number related to improper supply of gas, non-installation of meters, non-repair of gas pipelines and delay in restoration of gas connection.

#### ***4.1.8.3.34 Non-defending tampering claims before Federal Ombudsman due to deviation from OGRA procedure***

According to Clause-D of OGRA Procedure for dealing with the theft of Gas cases 2005, the meter will be tested, if desired by the customer in his presence or otherwise absence of the customer will be noted.

During thematic audit of Quality of Service Delivery by SSGC for the FYs 2020-21 and 2021-22, it was observed that the old meters of customers of SSGC, Regional Office Sukkur were replaced and tested at meter shop without any intimation to the customers and they were charged with tampering claims without observing the regulatory procedure. Due to the same deviation, the complaints against the Company could not be defended by the Management before the Federal Ombudsman. Resultantly, the Federal Ombudsman, in 45 cases, recommended to waive off the tampering claims amounting to Rs 1.414 million which was agreed by the Management.

The matter was reported to the management in December, 2022. In DAC meeting held on January 19, 2023 the management explained that generally, meters were changed for various reasons i.e. PUG/Slow/Schedule etc. However, internal tampering of the meters was detected when the meters were tested at the meter shop. It was also not possible to invite all these domestic customers to be present during testing process. However, the domestic customers / complainants or representatives were requested to be present at the time of testing process when meter removed / replaced.

The DAC directed the management to present the entire data relating to tempering cases referred to Wafaqi Mohtasib for verification of Audit. DAC further directed to constitute a joint committee for complete analysis of meter testing.

#### ***4.1.8.3.35 Inconclusive closure of complaints by Wafaqi Mohtasib***

According to Section 3 of Wafaqi Mohtasib (Investigation and Disposal of Complaints) Regulations, 2013, a complaint written in English or Urdu may be presented at the Head Office or any of the Regional Offices and section 23 of the Regulations *ibid* delineates that investigation of a complaint shall, with the approval of the Mohtasib, be closed when it is found that the Agency during the hearing of the complaint or its processing undertakes to provide the relief sought; or the complainant is satisfied with the report submitted by the Agency or does not wish to pursue the case any further or withdraws the complaint; or the complainant and the representative of the Agency mutually agree on the redressal of the grievances through consent findings. A complaint shall be disposed of within sixty days of its registration.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SNGPL” for the FYs 2020-21 and 2021-22, it was observed that 278 complaints relating to maladministration in provision of connection, supply of gas at contractual pressure, shifting of gas meter, delay in issuance of demand notices, installation of meter at wrong premises / address lodged with WM during FY 2021-22 but these were closed despite the fact that required action to give relief to consumers / complainants was still pending or not completed by regional offices of SNGPL or with remarks “Relief cannot be granted”. Further, 51 complaints were not decided by Wafaqi Mohtasib during 2021-22 despite lapse of 60 days as envisaged in the Regulations *ibid*.

The matter was reported to the management in December, 2022. A meeting with management was held on January 23, 2023, the management stated that Out of 278 complaints 123 complaints were forwarded as “Pending Cases” and remaining 155 cases were reported as “No Relief Granted”. Audit contended that specific reasons were required to be given because moratorium was imposed in November, 2021 and why new connections pertaining to prior to ban were not provided despite on merit. 51 cases were decided by WM prior to November, 2021 and there were no reasons to give aforesaid remarks. Case-wise position regarding applicants / consumers were whether on merit or not and reasons for non-provision of connections prior to imposition of ban.

#### **Prime Minister Citizen Portal (PMDU)**

##### ***4.1.8.3.36 Ineffective Complaint Resolution by PMDU***

According PMDU Manual Para 4.3. Performance Evaluation & Accountability, all Federal Organizations / Government entities shall quarterly conduct detailed performance audits, and complainant satisfaction/citizen’s feedback surveys. Regular reports should be made to respective heads of the organizations about complaint resolution processes, complaint trends and systemic issues, and recommendations for improvement where appropriate. The PMDU’s team will from time to time conduct overall review of the complaints & suggestions processing at all levels. General parameters for evaluation of an Organization are as follows; Time factor in resolution of complaints, number of complaints resolved, quality of response to the citizens, quality of resolution and Citizen’s feedback.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SNGPL” for the FYs 2020-21 and 2021-22, it was observed that PMDU complaints were mainly relating to delay in provision of connections, shifting and replacement of defective meters, low pressure and no gas, excessive / wrong / incorrect and detection billing, improper supply of gas, non-repair of gas pipelines and delay in restoration of gas connection. SNGPL management was responding all the complaints on the pattern of its Complaint Resolution Mechanism and PMDU was not able to give any additional benefit to end consumers especially in case of policy related complaints. Out of total 18,865 PMDU complaints relating to Sales / Business Development section of all regional offices of SNGPL during the period under audit, 16,686 PMDU

complaints were closed with the remarks “Relief cannot be granted” and “Partial relief grant”. Similarly, in the following 05 regional offices, out of total 62,827 PMDU complaints, 52,257 PMDU complaints were closed without providing complete relief to complainants, 20,062 PMDU complaints were closed with the remarks “Relief cannot be granted” and 32,195 PMDU complaints were closed after providing “Partial Relief”.

The matter was reported to the management in December, 2022. A meeting with management was held on January 23, 2023, the management stated that “Relief Cannot Be Granted” had been introduced by PMDU manual for cases where the complaint/request of the consumer cannot be acceded to due to matter colliding with the policy e.g. currently there was moratorium on New Gas Connection by the Government of Pakistan hence company was not able to provide connections to the consumers. Audit contended that specific reasons were required to be given because moratorium was imposed in November, 2021 and why new connections prior to ban were not provided despite on merit. All cases / applicants who were on merit prior to November, 2021 but new connection was not provided, then there were no reasons to give aforesaid remarks. Case-wise position regarding applicants / consumers were whether on merit or not and reasons for non-provision of connections prior to imposition of ban.

#### ***4.1.8.3.37 Non-satisfaction of PMDU complainants***

According to PMDU Manual Para 4.3. Performance Evaluation & Accountability, all Federal Organizations / Government entities shall quarterly conduct detailed performance audits, and complainant satisfaction/citizen’s feedback surveys. Regular reports should be made to respective heads of the organizations about complaint resolution processes, complaint trends and systemic issues, and recommendations for improvement where appropriate. The PMDU’s team will from time to time conduct overall review of the complaints & suggestions processing at all levels. General parameters for evaluation of an Organization were as follows; Time factor in resolution of complaints, number of complaints resolved, quality of response to the citizens, quality of resolution and Citizen’s feedback.

During thematic audit of “Quality of Service Delivery of Gas Companies i.e. SSGC” for the FYs 2020-21 and 2021-22, it was observed that in the FY

2020-21, 2654 complaints were filed by Consumers on Pakistan Citizen's Portal (PCP) against SSGC, and in the FY 2021-22, 2372 complaints were filed by consumers against SSGC. During scrutiny of record for FY 2021-22, 1,352 complainants were not satisfied of SSGC services and in preceding FY 2020-21, 1,556 Complainants were not satisfied. The details are as under:

FYs	Total PMDU Complaints	Total Complaints Resolved	Positive Feed Back of Consumers	Un Satisfied Consumers	Percentage %
	A	B	C	D (A-C)=D	E (D/B)x100
2021-22	2,454	2454	1102	1,352	55%
2020-21	2,715	2,715	1159	1,556	57%

(Source: Data provided by SSGC)

The matter was reported to the management in December, 2022. The DAC meeting was held on January 19, 2023, the management explained that a registered citizen / member was always seeking resolution of a complaint to the level of his/her own satisfaction, though sometimes it was not possible keeping in view merit/rules/regulations or availability of funds. While resolving a complaint, the Government Organizations / entities may face three situations-one; wherein the complaint was to be closed with relief granted second; the complaint was to be closed with partial relief granted perhaps on the basis of some action initiated, third; relief cannot be granted as per law.

The DAC directed the management to get the stated stance verified from Audit.

#### **4.1.9 Departmental Responses**

Para wise departmental replies and proceedings of meeting with SNGPL management and DAC meeting with SSGC have been incorporated in the foregoing paragraphs.

#### **4.1.10 Recommendations**

Gas utility companies should:

- Take up the matter with the Federal Government for relaxation in moratorium to the extent of cases where urgent fee, demand notices or

both had already been paid by the applicants before November 12, 2021 but connections were not provided;

- ii. Urgent fee collected after imposition of ban be refunded to applicants;
- iii. Probe the matter relating to discrimination caused to citizens or any category of consumers, applicants and citizens depriving the facility of gasification especially gas producing areas and applicants on merit but connections were not provided to them;
- iv. In order to alleviate discrimination affecting citizens / consumers, matter be taken up with the Federal Government relating to policies regarding prioritization of some localities for gasification and development schemes, provision of connections, imposition of ban, application of two tariffs on consumers of same localities, tariff structure, two prices (system gas and RLNG) prevalent in the country, etc. for review / reconsideration;
- v. Ensure the compliance of license conditions relating to “Security and Continuity of Supply” and take effective measures to ensure the compliance of license condition;
- vi. Probe into the matter relating to non-compliance of Performance and Service Standards, 2019 for fixing responsibility in cases other than external factors beyond control of Gas Utility Companies;
- vii. Take remedial measures to address grievances of citizens / consumers and to avoid such violations of Performance and Service Standards, 2019;
- viii. Justify supply of gas at less pressure than contractual pressure and take remedial measures to ensure billing at actual site pressure;
- ix. Matter be taken up with OGRA for insertion of penalty clauses for contractual violations by the consumers such as in case of pressure enhancement and use of generators and compressors etc. because other consumers were affected by these violations;
- x. Explain reasons for inaction on HHU discrepancies highlighted by meter readers and take remedial measures for monitoring of rectification which can reduce the quantum of complaints from consumers;

- xi. The management may take steps to strengthen the internal controls within the organization to ensure full compliance of standards set by OGRA for effective service delivery;
- xii. Effective steps need to be taken to ensure that all complaints were examined timely and anomalies be rectified properly and reports relating thereto including action taken by all departments be uploaded on CC&B showing final fate of the complaint;
- xiii. Expedite completion of pending operational phases and system augmentation projects meant for rectification of low pressure problems and restoration of gas supply at contractual pressures in tale end localities and low pressure areas;
- xiv. Consumers feedback should be obtained and uploaded on CC&B because customer satisfaction is the primary objective of establishing the Customers Services Departments containing huge number of field staff and funds were employed on this area;
- xv. Substantial number of complaints were not within OGRA standards / timelines which needs to be justified and align Customer Service Manuals with Performance and Service Standards;
- xvi. Initiate action against Personnel responsible for issuing excess bills on account of wrong adjustment / tampering (theft) charges aggregating amount of Rs 91.662 million to 437 consumers which were later on set aside by OGRA;
- xvii. Complaints should not be closed with remarks “Relief cannot grant” or “Partial relief granted” at WM / PMDU levels making these fora ineffective and specific reasons in such cases be given;
- xviii. Before closing complaints relating to provision of new connections, factual position be ascertained whether the complainants / applicants were on merit or not prior to imposition of ban, if on merit but connections were not provided then action against responsible persons be initiated; and

- xix. Proper mechanism be developed for taking up by the matter with higher authorities up to the Federal Government and Parliament to resolve the complaints of the citizens / consumers.

### **Petroleum Division**

Petroleum Division should monitor the effectiveness of Complaint Resolution Procedures of Gas Utility Companies and policy related matters filtered out from the complaint mechanisms of gas companies, OGRA, WM and PMDU may be placed at priority for resolution thereof so that citizens / consumers grievances could have been addressed.

### **OGRA**

- i. OGRA being regulator and licensing authority should take cognizance of violation of license conditions by Gas Utility Companies and non-compliance of Performance and Service Standards introduced by it;
- ii. Punitive measures may be taken for violations of license conditions, standards and excess billing to consumers under OGRA Ordinance, 2002 and other applicable Rules; and
- iii. If such violations of license conditions were relating to policies of Federal Government, then either OGRA should amend its license conditions accordingly or take up the matter in collaboration with gas utility companies with the Federal Government for its review / reconsiderations.

### **4.1.11 Conclusion**

Both the gas utility companies were not complying with the Performance and Service Standards introduced by OGRA and violated various parameters of service delivery. Both the companies were also not implementing the terms and conditions of licenses issued by OGRA relating to discrimination among the consumers / applicants, security and continuity of supply, observance of terms of standard contract with retail consumers (maintenance of contractual pressure). The inadequate service delivery was also noticed in providing new connections to the feasible consumers, defective meter replacements, and absence of monitoring to desist growing trend of provisional billing. Failure in maintaining actual meter account resulted in issuing excess bills to consumers on account of

adjustment charges, sticky meter charges, tampering charges and other charges in 437 cases which was set aside by OGRA / Federal Ombudsman due to failure in establishing the claims with evidences.

Complaint resolution procedure / mechanism devised by the gas companies was not robust enough to cater for huge quantum of complaints especially relating to low pressure and gas stop, hence these were closed unresolved by referring to other departments for reporting to OGRA. Actually, final action taken on such complaints was neither taken by respective departments within stipulated time nor reasons for inconclusive complaints were recorded in the system. Further details of action taken by respective departments were also not uploaded / available in centralized data (system). There were several low pressure areas / tale end areas in each city where contractual pressure was not being supplied throughout the years. Customers' feedback was also not obtained for uploading on system and substantial number of complaints redressal was not within OGRA's set standards.

Complaint resolution process of OGRA, Wafaqi Mohtasib and PMDU were effective in case of excess billing and corresponding relief to gas consumers was provided. However, all these organizations were ineffective in complaints of gas stop / low pressure, non-provision of gas connection to consumers on merit, supply of gas on contractual pressure. OGRA noticed in numerous complaints that gas companies were not observing performance and service standards but no punitive action was taken to discourage such tendency of showing laxity in compliance of license conditions and set standards. Audit besides pointing out lapses / observations also recommended certain measures as well if taken by gas utility companies, Petroleum Division and OGRA will bring betterment in quality of service delivery of two gas utility companies.

## **4.2 Thematic Audit of Effectiveness of OGRA Licensing Regime regarding Petroleum Products**

### **4.2.1 Introduction**

The petroleum sector plays a prominent role in the energy matrix of Pakistan. With limited oil resources and decline oil reserves by the passage of time imports of petroleum products is increasing. The supply chain comprises of several activities ranging from flow of crude oil to refineries and supply of refined products from refineries and ports to end consumers. In the supply chain various stake holders are involved; Public Sector Enterprises, commercial companies and government authorities. In the supply chain to most important factor are contractual obligations of the companies with the other companies and the government as well as financial resources that are needed to fulfill these contractual obligations. There are many other factors that impacted on the supply chain for example seasonal variation in demand, smuggling, price fluctuations, exchange rate etc. The problem at any point may have an impact on the end consumer.

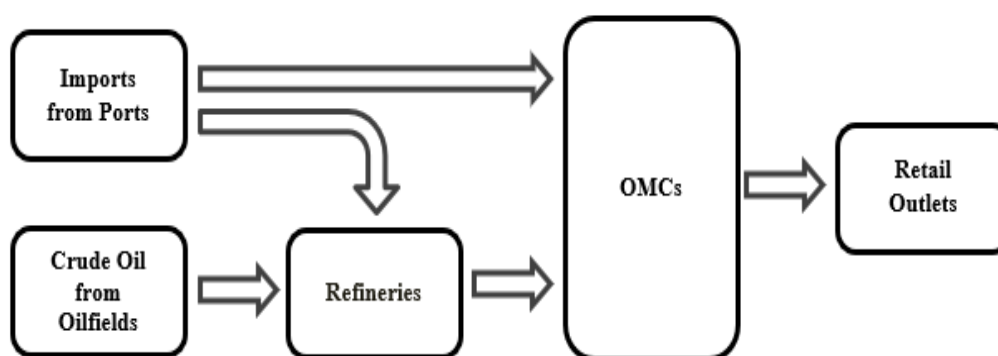
Until 1999, major activities of petroleum sector were regulated by the government. All the decisions were made solely by the government and were often based on political as opposed to economic considerations. Since 2000, the government had initiated an ambitious pro-market reform program in the sector. Due to the massive domestic demand for oil, a large quantity of crude oil is imported every year.

The petroleum supply chain infrastructure in Pakistan starts from port facilities in Karachi. Crude oil, white-oil products, Low Sulphur Furnace Oil (LSFO) are received at the Karachi port, and High Sulphur Furnace Oil (HSFO) is received at the Fauji Oil Terminal at Port Qasim. The port facilities are connected to the tankage/storage facilities of the refineries and oil marketing companies (OMCs). Similarly, oil explored and produced (E & P) locally is transferred from E & P companies to refineries, from refineries to oil marketing companies, and from oil marketing companies to thermal power plants and other petroleum consumers (individuals, industries).

Presently in Pakistan, five (5) refineries namely ARL, PARCO, NRL, BYCO, and PRL and 33 oil marketing companies are operating. Further, there are two pipelines for the transportation of oil from the ports, one for crude oil

and the other for refined (HSD). The 870 km long crude oil pipeline called Karachi Mehmoodkot (KMK) pipeline transports crude oil from Kemari Port to PARCO refinery, Mehmoodkot, Muzaffargarh. The other pipeline called White Oil Pipeline which is 786 km long, transports refined HSD from FOTCO, Port Qasim to storage facilities at Qasba Gujrat, Multan. Another 362 km long pipeline, Mehmoodkot-Faisalabad-Machhike (MFM) pipeline transports oil from storage facilities of various OMCs in Machhike.

#### Oil Supply Chain in Pakistan



#### 4.2.2 Background

The petroleum supply chain infrastructure in Pakistan starts from port facilities in Karachi. Crude oil, white-oil products, Low Sulphur Furnace Oil (LSFO) are received at the Karachi port, while High Sulphur Furnace Oil (HSFO) is received at the Fauji Oil Terminal at Port Qasim. In the financial year 2021-22, the total import of HSD in Pakistan was 4,086,141 M. Tone and refinery production was 4,698,855 M. Tone. Similarly, the total import of Petrol was 6,729,880 M. Tone and refinery production remains at 2,496,320 MT. The port facilities are connected to the tankage/storage facilities of the refineries and oil marketing companies (OMCs). Oil explored and produced by E&P companies locally is transferred from E&P companies to refineries, from refineries to oil marketing companies, and from oil marketing companies to thermal power plants and other petroleum consumers (individuals, industries).

The petroleum product supply chain in the country is managed by the Ministry of Energy (Petroleum Division) through DG (Oil) and OGRA. The sector is functionally categorized into midstream and downstream sectors. The midstream sector is involved in processing hydrocarbons into petrochemical products. The sector includes refineries and is regulated by OGRA and DG (Oil). Currently, 6 refineries are operational in Pakistan out of which one refinery (ENAR Petrotech) was dedicated to defense purposes and supplies petroleum products exclusively to the armed forces. Of the remaining refineries, BYCO Refinery is the largest refinery with an installed capacity of 7.17 MT whereas PARCO is the largest refinery in terms of production share with 30% of refined oil.

The downstream sector consists of Oil Marketing Companies, retail outlets, and storage depots and is regulated by the Department of Explosives and OGRA. OMCs are the companies that market / sell petroleum products. These companies operate in the country after obtaining a marketing license from OGRA. An OMC has to fulfill certain conditions including installation of storage capacity before it could be granted a license. Currently, 33 OMCs are operating in the country. PSO is the largest OMC in the country followed by TPPL and SPL.

Petroleum products are significant for Pakistan's economy as the country's energy needs rely heavily on them. Petroleum products are not only the largest source of energy consumed in the country; the petroleum industry is also a major contributor to the government revenues (Tax) of the country.

#### **4.2.3 Establishing the Audit Theme**

##### **4.2.3.1 Reasons for Selection**

Management of the whole processes of the oil products supply chain directly affects the country's ordinary citizens and industrial and commercial sectors. The Audit has highlighted the issues of need/demand assessment and supply chain management of petroleum products in previous Annual Audit Reports. The issue has become of public interest and has invited the attention of national print and electronic media. Further, under Sustainable Development Goal 7 - Affordable and Clean Energy-Pakistan was obliged to fulfill its commitment to expanding infrastructure and upgrading technology to provide clean and efficient energy to its citizens by 2030. This office considered it

appropriate to scrutinize the matter of effectiveness of the licensing regime regarding petroleum products to highlight bottlenecks in an efficient and effective oil supply chain.

#### **4.2.3.2 Purpose / Objective**

The theme incorporated an analysis of the effectiveness of compliance with specific terms and conditions of licenses issued by OGRA and the Department of Explosive to OMCs, i.e. maintenance of minimum mandatory stock, mechanism of demand forecast, and proceedings of PRM. The following TORs were devised;

- i. To evaluate whether there exists a robust regulatory Framework for Oil Sector with precise authority / responsibility bifurcation among OGRA, DG Oil, Department of Explosives, and District Authorities;
- ii. To check whether Oil Rules, 2016 introduced by the government were adequate and cover the whole spectrum of the oil sector and provide sufficient penalties for the violations;
- iii. To examine licensing mechanism for submission of work program (timelines) for development of market infrastructure, i.e. oil storage facilities, and retail outlets by OMCs;
- iv. Approved Pipeline projects for the transportation of refined products from Machikay to KPK / Tarujabba have been initiated to ensure the availability of petroleum products;
- v. To check the commensurate storage depots with retail outlets in K.P.K. / Tarujabba;
- vi. To evaluate the existence of proper monitoring mechanisms and regulatory oversight to ensure compliance with the committed work program ensuring timely development of market infrastructure;
- vii. Whether OGRA succeeded in the development of minimum mandatory storage equal to 20 days average sale by OMCs;
- viii. To check whether OMCs were operating joint storage facilities and hospitality agreements which were not covered under the existing rules and resulting in non-development of own storage facilities;

- ix. To check whether OMCs were not establishing illegal retail outlets without seeking N.O.C.s from the Department of Explosives; and
- x. Whether there exists sufficient strategic storage of petroleum products in the country and whether OGRA had any plan for its development.

#### **4.2.3.3 Scope**

The licencing regime for petroleum products involved several entities; OGRA, DG Oil and Department of Explosives. Period under audit was 2020-21 and 2021-22.

#### **4.2.4 Legal framework Governing the Licensing Regime**

The upstream activities of the oil sector are regulated by DG (PC). The regulatory functions of midstream and downstream activities have been divided between DG (Oil) and OGRA. Department of Explosives also plays an essential role in the retail oil sector as it is the only federal authority that regulates retail outlets. However, the regulatory aspect is restricted to compliance with security protocols. The Licensing Regime of the Petroleum sector is governed under the following acts, policies, and rules;

##### **Petroleum Act, 1934**

The Petroleum Act, of 1934 was inherited by Pakistan upon independence and remained in force till 2002 when OGRA Ordinance was promulgated. The Act dealt with importing, transporting, storing, producing, refining, and blending petroleum and other flammable substances. Most of the provisions of this Act have been overridden by OGRA Ordinance. However, the Department of Explosives still derives its authority from the Act. Moreover, the Act provided for the framing of new rules. Hence, the Petroleum Rules, of 1937, were framed, which remained operational till 1971, when new rules were framed.

##### **Pakistan Petroleum (Refining, Blending, and Marketing) Rules, 1971**

These Rules were framed under the 1934 Act, replaced the Petroleum Rules 1937, and granted the Ministry of Petroleum and Natural Resources authority to administer/regulate Petroleum Sector. Although these rules remained in force till 2016, significant amendments were made to the regulations after the promulgation of the OGRA Ordinance, 2002. The Federal Government issued

two S.R.O. in 2006, SRO 268(I)/2006 dated 15-03-06 and SRO 236(I)/2006 dated 13.03.2006, which divided Authority between OGRA and DG (Oil), which was previously exercised solely by DG (Oil). However, OGRA was declared exclusive power in issues related to licensing. After the enforcement of the Pakistan Oil Rules, in 2016, most of the provisions of the 1971 Rules became obsolete. However, the 2016 Rules failed to address the matters related to the demand and supply of petroleum products. Hence, Rule 30-b of the 1971 Act remained operational, thus allowing PD / DG (Oil) to hold PRM and to allocate import quotas to OMCs.

### **Oil and Gas Regulatory Authority Ordinance, 2002**

Oil and Gas Regulatory Authority Ordinance, 2002 was promulgated in 2002, which paved the way for the establishment of OGRA. OGRA was established under Oil and Gas Regulatory Authority Ordinance, 2002, to foster competition, increase private investment and ownership in Pakistan's midstream and downstream petroleum and gas industry, protect the public interest while respecting individual rights, and provide effective and efficient regulations for related matters. The Ordinance also provided for the framing of new rules under Section 41. However, only after 14 years, i.e., in 2016, Pakistan Oil (Refining, Blending, Transportation, Storage, and Marketing) Rules were implemented.

### **Pakistan Oil (Refining, Blending, Transportation, Storage, and Marketing) Rules, 2016**

As mentioned above, it took OGRA 14 years to frame new oil rules. The intervening period from 2002 to 2016 was governed through two S.R.O.s which divided powers between DG (Oil) and OGRA. The new Pakistan Oil Rules, 2016, were intended to replace the 1971 Rules, but there remained unaddressed issues in the new rules, which have led to confusion regarding the role of the regulators. The major features of the criteria for the grant of a license to a new oil marketing company under the above rules are as under:

- A corporate structure is important from the point of view of protection against leakage in Government revenues, i.e. duties, taxes, and sales tax. Therefore, the prospective company shall be a Private /Public Limited company quoted on the Stock Exchange or an unquoted Private / Public Limited company registered in Pakistan. However, the prospective company should not be affiliated with existing oil marketing companies

operating in Pakistan;

- The marketing plan should include supply arrangement, a plan for setting up retail outlets for three years, and compliance with laid down standards such as Depots, Retail Operations, and Road Transport;
- The marketing license will be provisional for three years till the marketing plan is executed/ implemented;
- The investment plan should concentrate on the development of depots, installation, etc., and must create minimum storage of 20 days of their proposed sales within three years;
- The company has a total investment capacity of not less than 500 million rupees over an initial period of three years, with minimum upfront equity of 100 million rupees based on the criteria of a 60:40 debt / equity ratio, supported by a due diligence certificate from a scheduled bank or financial institution;

#### **4.2.5 Stakeholders and governmental organizations identified as directly / indirectly involved**

Important stakeholders and Government organizations are as under:

- i. Ministry of Energy (Petroleum Division);
- ii. OGRA;
- iii. Department of explosives;
- iv. Refineries;
- v. Oil and Marketing Companies; and
- vi. General Public.

#### **4.2.6 Role of the important organization**

The upstream activities of the oil sector are regulated by DG (PC). The regulatory functions of midstream and downstream activities have been divided between DG (Oil) and OGRA, which has resulted in confusion regarding their role and hindered the performance of the petroleum sector. Department of Explosives also plays an essential role in the retail oil sector as it is the only federal authority that regulates retail outlets. However, the regulatory aspect is

restricted to compliance with security protocols. A brief introduction of the role of regulators in the oil sector of Pakistan is as under:

### **Ministry of Energy (Petroleum Division)**

Petroleum Division, an important stakeholder, is responsible for coordinating the development of natural energy and mineral resources in Pakistan. It is responsible for ensuring, securing, and making available a sustainable energy supply for economic growth in the country. The Policy Wing of the Petroleum Division consists of four Directorates. Each Directorate is headed by a Director General i.e. DG (PC), DG (Oil), DG (Gas), and DG (LG). The Policy Wing is responsible for developing policies for the oil and gas sector forecasting future requirements and assessing the impact of existing policies, rules and regulations.

### **DG (Oil)**

The Directorate General of Oil is a department under the Ministry of Energy (Petroleum Division). It derives its power for the performance of its function from Pakistan Petroleum Refining, Blending and Marketing Rules, 1971. As mentioned above, DG (Oil) maintains the balance between demand and supply in the country under Rule 30-B of Pakistan Oil Rules, 1971, and holds PRM. However, these functions were transferred to OGRA vide SRO 46(1)/2022 dated January 07, 2022.

### **OGRA**

OGRA was established under Oil and Gas Regulatory Authority Ordinance, 2002, to foster competition, increase private investment and ownership in Pakistan's midstream and downstream petroleum and gas industry, protect the public interest while respecting individual rights, and provide effective and efficient regulations for related matters. The primary functions of OGRA are as under:

- i. Issuance of licenses to refineries, storage depots, and OMCs;
- ii. Maintenance of minimum stock of petroleum products by the OMCs;
- iii. Maintenance of strategic storage over and above the storage capacity of the OMCs;
- iv. Ensuring the supply of petroleum products by the OMCs; and

- v. Monitoring and enforcement of rules, regulations, and applicable license conditions and imposition of penalty in case of violation.

### **Department of Explosives**

Department of Explosives is an attached department with the Ministry of Energy (PD). Until recently, it was a part of the Ministry of Industries but was attached to the Ministry of Energy. The department is administered under Petroleum Act, 1934 and Petroleum Rules, 1937. Its main objective is to ensure and enhance public safety through license issuance. It issues licenses for manufacturing, transportation, storage, import, export, selling, and use of all explosive setups, including petroleum products.

For petroleum products, it issues licenses to storage depots, retail outlets, and tank lorries used for transportation as tabulated below:

Category	Licenses Issued to
K	Retail Outlets
L	Storage Tanks
M	Storage of Petroleum Products in Drums
Q	Transportation Vehicles (Oil Tankers / Lorries)

### **4.2.7 Organizational Financial**

OGRA is mandated to regulate the country's mid and downstream oil sector under Pakistan Oil (Refining, Blending, Transportation, Storage & Marketing) Rules, 2016, and OGRA Ordinance 2002. OGRA Ordinance mainly pertains to the grant of license to undertake marketing of refined oil products, construction & operation of oil infrastructure. OGRA received a Marketing License fee, Inspection Fee, and Annual Turnover Fee from Oil Marketing Companies. Similarly, Petroleum Division (DG-Oil) collects the Petroleum Levy, Discount, and windfall levy for Petroleum Products. Details of the last three years are as under:

(Rs in million)

Description	2021-22	2020-21	2019-20
Marketing License fee Oil	18.375	55.735	29.875
Inspection Fee (Oil)	3.287	2.106	1.205
Annual Turnover Fee (Oil)	232.454	181.513	212.888
Petroleum Levy	127,483.000	424,856	303,461
Discount on Crude Oil	16,503.000	10,332	13,456
Windfall levy	14,396.000	3,028	5,175

(Source; OGRA & MOE (PD))

## **4.2.8 Field Audit Activity**

### **4.2.8.1 Methodology**

During the entire auditing cycle, the team followed a graduated and integrated approach which comprised of planning, in the execution stage, compliance testing, substantive analysis, and computer-aided techniques, examining relevant legislation, organizational files, and documents and carrying out site visits and interviewing the various tiers involved.

## **4.2.9 Audit Analysis**

### **4.2.9.1 Review of Internal Controls**

Thematic Audit of the OGRA Licensing Regime regarding Petroleum Products involves OGRA, DG (Oil), and the Department of Explosives, who were working in collaboration. An analytical review of different controls is as under:

- i. There was no physical reporting system in OGRA to oversee product movement from one depot to another or retail outlets. Thus, there was no mechanism to validate the reported dispatches to declared retail outlets. Hence, it was impossible to identify dumping and hoarding of petroleum products in the tank lorries and figure out manipulation of IFEM;
- ii. OGRA was unable to maintain any database of the oil supply chain to account for opening stocks, purchases (local and imports), sales to retail outlets, and other movements and closing stock of petroleum products on real-time basis. OGRA had to rely either on OCAC or OMCs for monitoring of the oil supply chain. In the absence of any centrally controlled database, OMCs had a maneuvering space regarding reporting of supply chain data to OCAC and PRM such as imports, berthing, and actual pumping volume. OGRA had no controls in place to validate the figures reported by OMCs; and
- iii. OGRA vide its notification No. OGRA-12(02)/2017-SBR, dated August 24, 2017, set out the criteria for establishing retail outlets according to which an OMC shall had 2 tons/day for 20 days or 40 Mt storage capacity for each retail outlet it intends to establish. According to Department of Explosive, there were currently 11,833 retail outlets

throughout the country. Apart from these, there were a large number of illegal retail outlets operating throughout the country. However, there was no consensus regarding the exact number of illegal retail outlets as different government agencies convey different numbers of such outlets. PSO was the leading OMC with 3126 retail outlets throughout the country, followed by GO with 1179 and Askar Oil with 1173 outlets. The top ten OMCs have more than 85.3% of the retail outlets in the country, whereas the remaining OMCs operate less than 14.7% of the retail outlets as depicted in Figure 1. (As per available record there was no mechanism to certify the required storage capacities in these outlets leave aside those of the illegal franchises.)

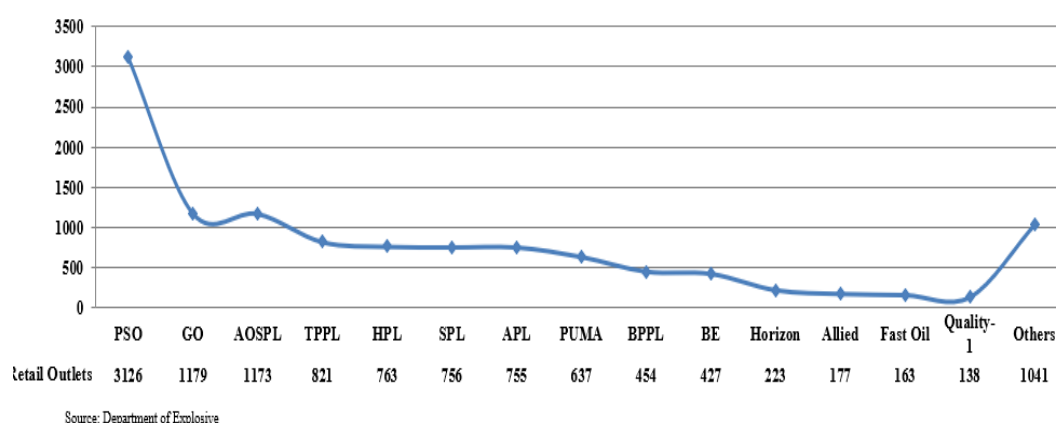


Figure 1: Total retail outlets of OMCs in Pakistan

#### 4.2.9.2 Critical Review

OGRA had the authority to make rules with the approval of the Federal Government under section 41 of the OGRA Ordinance 2002. In this regard, the new rules were framed in 2016, after a lapse of 14 years, which was unjustified and unwrapped the channels of legal uncertainty in the prevailing period. Further, the Oil Rules 2016 do not provide for the regulation of one of the most critical stakeholders of the downstream sector, the retail outlets. The following deficiencies were found in the above rules as narrated below:

- **Missing Legal Framework to ensure Compliance with Technical Standards**

The Oil Rules 2016 are silent about the regulations to ensure compliance with technical standards in old bulk oil depots, and pipelines of existing OMCs. The mechanism may be developed to ensure compliance with technical standards for these oil depots and pipelines.

- **No Mechanism for Recovery of Penalties**

According to Rule 69 of Oil Rules 2016, the Authority could impose penalties up to Rs 10 million. However, there was no mechanism in place to recover the amount of fine and penalties from OMCs and other licensees of OGRA. Audit contended that the number of fines and penalties are not enough to create a deterrence for OMCs and should be proportionate with violations rather than discretionary powers given to OGRA.

- **Illegal Licensing of Joint Storage Facilities**

Authority had allowed certain OMCs for the Construction of Joint storage facilities without any provision in the Petroleum Rules 1971 or the Oil Rules 2016 for JV storage facilities between two OMCs. An independent license in the name of JV was required to be issued other than a particular OMC for the construction of a storage facility (oil depot) for crude oil or petroleum products as per rule.

- **Non-updating the existing Regulations**

The Authority decisions taken from time to time were not formed part of regulations so that they can be implemented in similar cases in the future. The Authority takes up similar cases repeatedly consuming resources and time.

- **Non-comprehensive Manner of Authorization**

The existing rules do not distinguish between bulk and retail marketing authorization. However, the retail and bulk businesses of marketing transportation fuels (MS and HSD) are different in nature. The companies desirous of marketing in both retail and bulk should make separate applications for these businesses. Retail business was when a company

sells products through the dispensing units installed in the retail outlets. Bulk business was when a company supplies products directly in bulk (minimum 12,000 liters per delivery) to end users (for their consumption and not for resale) and/or to other entities who have obtained marketing authorization (for selling in either retail or bulk or both).

- **Lack of Legal Framework to Ensure Marketing Plan Benchmarks**

The Oil Rules 2016 do not provide benchmarks for a marketing plan for several retail outlets. The rules should state the year-wise number of retail outlets in the next five years subject to a minimum of 100 retail outlets from the date of grant of authorization in the application. Apart from the above, the marketing plan should include the source of supply of products to be marketed, storage and other infrastructure with their capacity, means of transportation of products to depots& retail outlets and year-wise number of retail outlets proposed.

- **Non-utilization of Bank Guarantees**

The above rules are silent about the bank guarantees and specifications of violations. The rules should include a procedure to collect a bank guarantee from the company at the time of licensing the retail marketing. In cases, for instance, where the company fails to develop mandatory storage/commission at any retail outlet as per approved timelines, OGRA should encash the bank guarantee which would be equivalent to Rs 100 million for old and new OMCs. It will help in ensuring discipline and commitment in the operations of the authorized companies in terms of disclosing factual representation to the government and ensuring high customer service standards through its retail outlets.

- **Dealership agreement with multiple OMCs**

There was no mechanism in place to prohibit the same person as a dealer of multiple OMCs which needs due consideration and incorporation in legal and operational setups.

- **Non-regulation of Retail Outlets**

- a) The Oil Rules 2016 do not cover the regulation of retail outlets which are one of the most critical elements of supply chain management. Due to

which, sale of oil at un-licensed and illegal filling stations was prevalent throughout the country. The rules allow OGRA to inspect and check the measurement and quality of the oil sold at the retail outlets only;

- b) No planning exists to determine the need for allowing new OMCs and retail outlets. OGRA never bothers to conduct surveys or studies along these lines;
- c) There was no mechanism for the establishment of new retail outlets in far-flung/rural areas of the country to avoid cluttering of retail outlets in congested areas or cities, Dabba stations, and illegal sale of petroleum products; and
- d) The Oil Rules are silent about the treatment of illegal/banned retail outlets.

- **Investment Criteria to setup an OMC needs reconsideration**

It was evident from the Oil Rules 2016 that a company needs to have a total upfront investment of not less than Rs 500 million over an initial period of three years to set up an OMC. The rules intend to attract investments in the oil business while allowing only committed and financially strong players to develop infrastructure in the country. It is, therefore, proposed that the investment benchmark should be enhanced to Rs 1,000 million to set up an Oil Marketing Company.

- **Non-follow-up of Terms and Conditions of OMC License**

There exists confusion regarding the minimum stock that an OMC had to maintain. According to Rule 37 of Pakistan Oil Rules, 2016, every OMC shall maintain such minimum stocks of petroleum products as the Federal Government may specify. On the other hand, Rule 53(xiv) of Rules *ibid* says all licensees shall maintain a minimum stock of petroleum products as directed by the authority with due regard to the storage capacity of the licensee. This confusion had led OGRA to claim exemption from its responsibility to specify and maintain minimum stock in absence of relevant instructions from the federal government. OGRA should have assumed the responsibility for the maintenance of stock, considering it was already responsible for the maintenance of minimum storage capacity. However, OGRA failed to ensure the development of

mandatory backup storage facilities leading to continuous supply of petroleum products by the OMCs. This was a primary reason behind several fuel shortages in Pakistan over the last decade and requires due attention in the wake of unpredictable global oil prices and supplies.

- **Need for Deregulation of Petroleum Prices**

At present, the prices of petroleum products like petrol and High-Speed Diesel (HSD) are regulated while the price of furnace oil was deregulated. The main objectives of OGRA are to foster competition and increase private investment and ownership in Pakistan's midstream and downstream petroleum and gas industries. The regulatory body was in charge of keeping an eye on the prices of oil and petroleum products. Fuel costs in the nation are set using the average price provided by Platts plus PSO's premium. Every two weeks, the oil industry's regulator, OGRA, calculates the weighted average cost of supply. The cost build-up for the marketing companies, which includes OMC margins, inland freight equalization, dealer commissions, petroleum development levies, and other costs was then added on top of this average. OMCs can profit from the margin granted to them during cost build-up or by looking for sources of supply that are less expensive than the weighted average cost determined by the regulator using information from PSO and Platts. Oil was an indispensable raw resource for vital economic activity and had unquestionable strategic significance. However, for an economy like ours that was dependent on oil, the state's tightly regulated oil prices have both long-term and short-term negative effects. In 2020 with a huge shortage of petroleum products in Pakistan, debate regarding deregulation of the sector to address the sector's issues was initiated. However, despite the consideration, no action was taken by the government. OMCs claimed that the petroleum division was responsible for the shortfall because it failed to manage supply and demand effectively through timely interventions. If the fuel prices are deregulated there would be competition between importers of petroleum products (OMCs) and local oil refineries within the country's market.

### **4.2.9.3 Significant Audit Observations**

#### ***4.2.9.3.1 Non-provision of record by OGRA***

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 a record for audit inspection and comply with requests for information in as complete form as possible and with all reasonable expedition. PAC in its meeting held on August 10, 2020, directed the Cabinet Division to provide all record relating to regulatory functions of OGRA to Audit.

OGRA did not provide complete record relating to regulatory functions despite repeated written and verbal requests which was tantamount to hindrance in performance of constitutional duties by the Auditor General of Pakistan and a clear violation of above quoted regulations. Audit recommends strict action against management of organizations which fails to provide relevant record to the external audit team of the Auditor General's Ordinance, 2001, and the directives of PAC.

#### ***4.2.9.3.2 Undue relaxation given to OMCs regarding storage capacity***

According to Rule 35 (2) of Pakistan Oil Rules, 2016, OGRA initially issues a license for a period of three years during which the marketing infrastructure shall be completed by the laid down technical standards. In case of failure the Authority may refuse the extension of the license or, depending on the nature of non-compliance and subject to penalties under the Ordinance and the rules, may grant an extension on such terms and conditions and for such period as deemed appropriate. Further, Rule 35 (3) upon satisfactory completion of the work program subject to the certification by a third party inspector confirming the compliance of technical standards the Authority shall grant a license to an oil marketing company for a maximum period of thirty years.

OGRA allowed 25 OMCs for marketing of petroleum products under provisional license i.e. before the development of storage facility. Consequently, the OMCs began the sale of petroleum products without maintaining minimum storage capacity. Surprisingly, instead of ensuring the establishment of storage

capacity, OGRA allowed extension in the provisional licenses after imposition of penalties.

#### **4.2.9.3.3 PRM allocation without ensuring market infrastructure**

According to Rule 30B of Petroleum Rules 1971, where the production of petroleum products by the local refineries is found insufficient, the Authority may, subject to such condition as it may impose from time to time, a marketing company may import such products.

PRM allocated a sizable quantity of 471,200 M.T of petroleum products to small OMCs with provisional licenses but without existence of proper market infrastructure. These un-committed OMCs (provisional licensees) affected the projection of demand and adversely affected the overall supply chain of petroleum products. The detail is as under:

OMC	No. of retail outlets	PRM allocation MOGAS (M.T)
Zoom	45	54,000
Quality 1	138	20,000
OILCO	78	1,000
Fast Oil	163	8,500
ZMOPL	75	71,700
Fuelers	25	-
ANPL	42	22,500
Exceed	61	2,000
Jinn Petroleum	89	18,000
Taj Gasoline	48	83,500
Euro	119	58,500
Fossil Energy	30	-
My Petroleum	97	68,500
Flow	56	63,000
<b>Total</b>	<b>1,066</b>	<b>471,200</b>

(Source; Department of explosives)

#### **4.2.9.3.4 Delay in promulgation of Oil Rules, 2016**

According to Section 4(1) of OGRA Ordinance, 2002 “the authority may with the approval of the Federal Government, whose approval shall not be delayed or unreasonably withheld, make rules for carrying out the purposes of this Ordinance. On approval of rules by the Federal Government, the Federal Government shall notify the same in the office of the Gazette.

It took OGRA 14 years to frame new oil rules and the intervening period from 2002 to 2016 was governed through two SROs which divided powers

between DG (Oil) and OGRA. The Pakistan Oil Rules, 2016 were intended to replace the 1971 Rules but there remained unaddressed issues which have led to confusion regarding the role of the regulators. OGRA lapsed 5 years to bifurcate its function and finally, the Ministry of Energy (Petroleum Division) vide SRO 46(I)/2022 dated 7<sup>th</sup> Jan 2022 transferred certain functions under 1971 Rules to OGRA. Further, the rules do not provide for the regulation of one of the most important stakeholders of the downstream sector, the retail outlets as discussed in the critical review.

#### ***4.2.9.3.5 Delay in completion of oil pipeline projects***

According to Rule 25 of Pakistan Oil Rules, 2016, the authority may grant a license for the construction or operation of new pipelines subject to certain terms and conditions. According to Rule 25(1), (b) pipeline routes and configurations meet the requirements of policy guidelines if any issued by the Federal Government under the Ordinance Further, according to Rule 25(2), the authority shall initially issue a license for construction for three years during which the necessary infrastructure as given in the work program shall be completed under the laid down technical standards.

ECC of the Cabinet approved the Machike - TaruJabba Oil Pipeline Project (430 Km) on November 01, 2017, and initially assigned it to ISGS. Later on the ECC vide Case No. ECC-27/06/2019 dated February 12, 2019 decided that the construction and development of pipelines should be done based on the commercial viability of the projects without any financial support or guarantees of any kind from the government. OGRA granted a transportation license to Frontier Oil Company-1(FOC-1) on 8<sup>th</sup> June 2018 and was supposed to be completed by June 2021. As on January 27, 2020 FOC-1 informed that the project is delayed and the completion/operation of the pipeline was expected to be done by May 2024. The license period was extended up to 07.06.2025 as on 10<sup>th</sup> February 2022.

#### ***4.2.9.3.6 Illegal construction of joint storage facilities***

According to Rule 28(1) of Pakistan Oil (Refining, Blending, Transportation, Storage, and Marketing) Rules, 2016, no person shall construct or operate any oil storage facility or undertake storage for commercial storage of crude oil or petroleum products without obtaining a license from the Authority.

OGRA allowed agreement between PSO, Shell Pakistan Limited and Caltex Oil (Pakistan) Limited on account of Joint Installation of Marketing Companies (JIMCO) for storage and throughput from the facility of HSD and SKO. The audit was of the view that there was no provision in the OMC rules 1971 or Oil Rules 2016 for Joint Venture (JV) storage facilities between two or more OMCs. An independent license in the name of JV was required to be issued other than the OMC license for the joint construction of a storage facility for crude oil or petroleum products. Further, OGRA in its Authority meetings directed Oil Department to prepare Third Party Access Rules for the usage of joint storage which could not be finalized till now.

#### ***4.2.9.3.7 Illegal sale & purchase of oil between OMCs***

According to Para 4(vi) of Special Report No.4/2017 of Standing Committee on PNR, "OGRA should ensure that OMCs are not involved in giving their products to other OMC's petrol pumps. The proper tracking system can point out where the tanker decanted. Heavy fine should be imposed in case of violation".

OGRA granted license to M/s Fossil Energy for setting up an Oil Marketing Company, with some terms & conditions. The provisional license was granted for three years till the marketing plan given by the company was executed. M/s Fossil Energy imported 2000 metric tons of oil, which was beyond its retails outlets and sold it to other OMCs' outlets. However, OGRA could not initiate any action against OMCs violating the licensing conditions due to absence of a proper tracking system to point out the exact location of decanting by the tankers.

#### ***4.2.9.3.8 Excess establishment of retail outlets than allowed by OGRA***

OGRA has set out the criteria for the establishment of retail outlets by the OMCs vide its decision OGRA-12(02)/2017-SBR dated August 24, 2017. According to the criteria, an OMC can have one retail outlet for every 40 M. Tone storage capacity or 2 tons/day for 20 days. The storage capacity has been determined by considering 2 M. Tone as an average sale by a retail outlet in a day.

Storage capacity was maintained and calculated separately for the purpose of establishment of new retail outlets. Hence, PSO which was allowed to

establish retail outlets in Sindh had been barred by OGRA from establishing retail outlets in Punjab. However, in most cases, the OMCs established more retail outlets than allowed according to the above-mentioned criteria with minimal to no action from OGRA. For instance, despite a ban on Askar Oil from the establishment of retail outlets in Punjab due to the existence of 768 illegal retail outlets, the company still had almost 366 illegal retail outlets in KP, Baluchistan and Sindh. The detail of excess outlets is given below:

Sr. No.	Name of OMC M/s	Punjab	KP	Baluchistan	Sindh	Total
1	Pakistan State Oil Company Limited	358	321	30		709
2	Askar Oil Services	768	182	16	168	1,134
3	Puma Energy (Pvt) Ltd (Admore)	399	64	7	99	569
4	Horizon Oil Company (Pvt) Limited	182				182
5	Byco Petroleum Pakistan Limited	129	42	27		198
6	Hascol Petroleum Limited		73	18		91
7	Quality 1 Petroleum (Pvt) Limited	65	35			100
8	Attock Petroleum Limited		91	5		96
9	Shell Pakistan Limited		30			30
10	JINN Petroleum Limited	62				62
	<b>Total</b>					<b>3,171</b>

(Source; Department of explosives)

#### **4.2.9.3.9 Excess allocation of Import quota**

According to Rule 30B of Petroleum Rules 1971, where the production of petroleum products by the local refineries is found insufficient, the Authority may, subject to such condition as it may impose from time to time, a marketing company may import such products.

OGRA allowed excess allocation of import quotas to OMCs without proper marketing infrastructure. This allocation resulted in the accumulation of high stocks of petroleum products in the country. Petroleum Review Committee in its meetings held during the financial year 2021-22 allowed the import of 4,152,700 MT of HSD against a deficit local production of 3,919,665 MT resulting in excess allocation of import quota of 233,035 MT. In this regard, ARL Refinery requested OGRA to save them from a full-scale shutdown owing

to a drastic fall in the upliftment of petroleum products by the oil marketing companies (OMCs) that are now relying more on slightly cheaper imported petroleum products.

#### ***4.2.9.3.10 Purchase of petroleum products from unreliable sources***

According to Rule 61,62 & 63 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, no person shall produce, prepare, mix or blend any petroleum product with any other substance whether or not it is a by-product of petroleum, which reduces its quality or efficacy below the laid down specification without prior permission of the authority.

Retail outlets were involved in uplifting petroleum products from unknown sources in violation of rules and sale of substandard / adulterated product to consumers. The sale of substandard / adulterated oil can harm the consumers' vehicles as well as can lead to any untoward incident. Moreover, illegal / adulterated sale of petroleum products supports in evasion of all legitimate levy, duty and taxes payable to government including sales tax and income tax. The matter came into the knowledge of the Department of Explosives and other concerned departments but no action was taken for cancellation of the explosives license

#### ***4.2.9.3.11 Illegal grant of permanent license***

According to Rule 35(2) of Pakistan Oil Rules, 2016, after examining the application made under rule 34 shall initially issue a license for a period of three years In case of failure to complete the aforesaid marketing infrastructure within the stipulated period of provisional license, the Authority may refuse the extensions of the license or, depending on the nature of non-compliance and subject to penalties under the Ordinance and the rules, may grant extension on such terms and conditions and for such period as deemed appropriate.

OGRA decided to change the status of Hascol Petroleum Ltd (HPL) license to a confirm permanent marketing license by calculating storage capacity erroneously by including Thallian storage capacity, a JV with FWO, and HTL storage capacity at Port Qasim, also a JV arrangement. Further, HPL could not complete the development of storage capacity in Punjab (Machiki A& B) and Hub, Baluchistan and status of work completion was up to 70%, 80% & 69% respectively. Moreover, there was no storage capacity available in KPK and

Baluchistan. This deficient development of storage capacity did not warrant a decision for issuance of a permanent marketing license to the HPL.

#### ***4.2.9.3.12 Non-inspection of oil carrying vehicles***

According to SRO 900(I)2009 dated 19.10.2009, OGRA introduced Regulations / Technical Standards for Petroleum Industry (Road Transport Vehicles, containers and Equipment Use for the Transportation of Petroleum Products) which apply to all road transport vehicles, containers and equipment used for transportation of petroleum products by Oil Marketing Companies.

A complaint was received through the Pakistan Citizen Portal regarding manufacturing of non-compliant oil tankers for PSO. OGRA forwarded the matter with PSO as the OMCs were responsible for ensuring compliance of the relevant standards for ensuring safe transportation of POL. PSO was also advised to take necessary action. PSO responded that 889 tank lorries according to OGRA & NHA standards have been inspected and issued certificates by TPI i.e. Velosi Integrity & Safety Pakistan Private Ltd. Matter relating to this complaint had been taken up with the TPI which reported that the record of more than 300 tank lorries being fabricated by M/s Four Star Company Karachi were inspected and found as OGRA compliant. All relevant record was available with them for verification at any time. However, as far as the safety and ISO certification of manufacturer i.e. M/s Four Star Company was concerned it was the responsibility of the manufacturer and it was not mandatory.

#### ***4.2.9.3.13 Illegal sale of petroleum products in small / unlicensed outfits***

According to Rule 33 of Pakistan Oil Rules, 2016, no person shall undertake the marketing of petroleum products without obtaining a license from the Authority. According to Rule 38, every oil marketing company shall supply the petroleum products to its retail outlets and its authorized agent, dealer, or bulk consumer having licensed premises for storage of the petroleum products. Further, "dealer" is defined as a person appointed, authorized, empowered or franchised by a licensee engaged in marketing or distributing motor gasoline, diesel, lubricants and greases at retail outlets.

OGRA could not frame an effective enforcement mechanism to eradicate illegal activity of selling petroleum products by Dhabba Stations in bottles from drums and mini petrol pumps opened in shops / public markets throughout the

country. However, these illegal mini petrol pump dispensing machines have been installed in small shops without any safety measures. These dispensing units have been installed on rolling wheel stands, which they bring out of shops during business hours and roll them back during the closure of shops or during district government raids.

#### ***4.2.9.3.14 Illegal Establishment of Retail Outlets***

According to Section 3 of Petroleum Act 1934 and rule 90 of Petroleum Rules 1937 (1)(2) no person shall delivery any petroleum to any one in Pakistan other than the holder of a storage license or his authorized agent or a Port Authority or railway administration. No person shall dispatch any petroleum to any one in Pakistan other than holder of a storage license.

It was observed that PSO got research conducted through a third-party vendor for identifying illegal stations in Sahiwal, Multan and Bahawalpur regions. Around more than 7000 illegal stations were identified which neither have been regularized by OGRA nor owned by OMCs. These unbridled retail outlets have not been fed with petroleum products from OMCs. Consequently, their only reliance for getting petroleum products was through smuggling or unlawful purchase from black marketers, other OMCs or hoarders. Unchecked by any regulatory authority, OMC or District Administration, these retail outlets may adulterate other hydrocarbon chemicals with MS and HSD or Kerosene with HSD. Hence, OGRA, MoE(PD), OMCs, Department of Explosives and District Administration concerned must carry out an exhaustive exercise into the operations and subsequent elimination of these illegal retail outlets.

#### ***4.2.9.3.15 Non-Development of Strategic Storages***

According to Section 2(1)(xxxviii) of OGRA Ordinance 2002, defines strategic petroleum storage as petroleum stored as fuel reserve in the event of a public emergency. Public emergency itself has been defined in Section 2(1)(xxviii) in the said Ordinance as the occurrence of any natural calamity, or an event which threatens the public safety, or the sovereignty, security, or integrity of Pakistan and has been so declared by the Federal Government. Section 21 of OGRA Ordinance 2002 places an important duty on Ministry of Energy (Petroleum Division) to issue policy guidelines in relation to establishment and maintenance of strategic petroleum storage. Such policy guidelines or

substantive contributions in terms of development of strategic storage facilities are hardly found in country to ensure minimum strategic storage.

It was observed that OGRA did not focus on development of strategic storages for extending benefits to the country by purchase of products in large quantity during the time of dipping prices. These cheaply procured quantities would not only benefit the Government in terms of foreign exchange but would help state-owned entity like PSO to overcome the inventory loss, during the crises period of June, 2020.

#### **4.2.9.3.16 *Unjustified retention of large number of non-compliant tank Lorries due to non-observance of technical standards***

Agreement for the transportation of POL production provides that to ensure that the transport vehicle carrying POL products are duly calibrated, comply with all the requirements of weights and measures, must be inspected by third party in accordance to NHA and OGRA standard.

It was observed that PSO had a fleet of over 10,378 tank lorries through cartage contractors. The company used these tank lorries to dispatch the POL products from Karachi to upcountry locations. As per data provided by the management, there were a large numbers of tank lorries showing non-compliance of OGRA standards. The status of compliance with the technical standards of OGRA is as under:

<b>No. Cartage Contractors</b>	<b>No. of fleet of Tank Lorries</b>	<b>No. of Tank Lorries (Compliance)</b>	<b>No of Tank Lorries (Non-compliance)</b>	<b>% of no. of Tank Lorries (Compliance)</b>
457	10,378	3,175	7,203	30.59%

PSO was the largest oil marketing company of the country and moved the majority of the POL products through roads and depends heavily on road transportation system through cartage contractors. Despite this retention of non-compliant tank lorries reflected failure on the part of management to adopt high standards in safety and environmental protection in transportation of petroleum products. These standards are necessary for safe transportation of petroleum products as well as mitigating the risk of harm to human life.

#### **4.2.10 Departmental Response**

No departmental response was received from OGRA till finalization of this report. However, the management of PSO submitted the following replies:

**4.2.10.1** The management in its reply dated February 5, 2023 stated that Joint Installation of Marketing Companies (JIMCO) was being operated as Joint Venture (JV) installation between PSO, SPL and TPPL by virtue of a Joint Venture Agreement dated December 24, 2004. Moreover, there was no embargo or restriction stated in the referred Rule 53 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, on OMCs to enter into a joint venture agreement (Para No. 4.2.9.3.6).

**4.2.10.2** The management in its reply dated February 5, 2023 stated that OGRA was the authority to impose the penalty and not PSO. Even as per the quoted Rules, the penalty could be applied by the Authority on the license holders i.e. OMC, Refineries, etc. and not on the Illegal outlets / Dabba stations. It was the responsibility of law enforcement agencies and district authorities to take action against these illegal pumps rather than OMCs. Keeping in view the sensitivity of the matter, PSO had already taken all necessary measures and informed all relevant authorities for closure of all illegal petrol pumps / Dabba Stations (Para No. 4.2.9.3.14).

**4.2.10.3** The management in its reply dated February 5, 2023 stated that PSO had a fleet of around 3,500 OGRA & NHA compliant tank lorries which was sufficient to meet country's white oil transportation requirement. Moreover, Petroleum Division had granted extension in the deadline for non-compliant tank lorries for primary movement till the commencement of multi-product movement through white oil pipeline. Subsequently, PSO had also taken up the matter with OGRA and Petroleum Division regarding usage of non-compliant fleet (Para No. 4.2.9.3.16).

#### **4.2.11 Recommendations**

Audit recommends that:

- i. Cabinet Division may take disciplinary action against the persons(s) responsible in OGRA for non-production of record and ensure timely provision of record to audit authorities;

- ii. OGRA should improve its performance and ensure compliance to the rules in areas like issuing permanent licenses, regulating retail outlets, curbing illegal sales and ensuring safe transportation;
- iii. Pakistan Oil (Refining, Blending, Transportation, Storage, and Marketing) Rules, 2016 may be revised keeping in view the ground realities after January 07, 2022;
- iv. Early completion of the Mache-Tarujabba Oil Pipeline Project should be ensured;
- v. Third Party Access Rules for Joint Storage facilities and hospitality arrangement should be framed to allow access to all JV Partners. OGRA;
- vi. OGRA should initiate disciplinary proceedings and penalize individuals and companies involved in illegal practices such as the OMCs including M/s Fossil Energy for selling products to other OMCs and the retail outlets that are unlicensed and not up to the required standards;
- vii. Upliftment of petroleum products from local refineries needs to be ensured in the wake of uncertainties in the global supplies and rates;
- viii. Licenses of OMCs and retail outlets need to be cancelled in cases of illegal sales and non-maintenance of required storage capacity as in the case of HPL. At the very least, the fines and penalties should be considerable enough to curb these malpractices;
- ix. The Authority should ensure that the tank lorries of OMCs are inspected by professional TPIs to ascertain the fact whether the tank lorries meet the OGRA and NHA standards;
- x. OGRA should improve enforcement mechanism by creating a compliance cell which can sensitize and liaise with provincial and local authorities under the supervision at the Member level regarding eradication of unlicensed outlets and illegal sale of petroleum products;
- xi. All illegal retail outlets must immediately be closed down while simultaneously initiating action not only against their owners but also against those who allowed them to prosper. In the same vein, the practice of unlawful regularization of retail outlets built in violation of rules must be put to an end;

- xii. Focus of the policy formulators should be laid on the enhancement of strategic storage (both crude oil and refined products) of the country; and
- xiii. Transportation of petroleum products should be incorporated in policy making both by OGRA and MoE(PD). The executive and the regulators need to ensure safety, security and real-time data availability in transportation of petroleum products.

#### **4.2.12 Conclusion**

There was no physical reporting system in OGRA to oversee product movement from one depot to another or retail outlets. OGRA fails to maintain any database of the oil supply chain to account for opening stocks, purchases, sales, and closing stock of petroleum products on a real-time basis. In the absence of any centrally controlled database, OMCs maneuvered the data of the oil supply chain for reporting to OCAC and PRM regarding imports, berthing, and actual pumping volume. The existing rules do not distinguish between bulk and retail marketing authorization. The oil rules do not provide benchmarks for a marketing plan for a number of retail outlets. Moreover, the oil rules are silent about the bank guarantees and specifications of violations. There was no mechanism to monitor the selection of same person as a dealer by another MC that should be addressed in the Rules. The Oil Rules 2016 did not cover the regulation of retail outlets, which was one of the most critical aspects of supply chain management and leads to illegal filling stations.



## **ANNEXURES**



**Annexure-1****MFDAC PARAS**

(Rs in million)

<b>Sr. No.</b>	<b>Forma- tions</b>	<b>AIR File No.</b>	<b>Para No. / DP No.</b>	<b>Descriptions</b>	<b>Amount</b>
1	PD	F-04-22	DP-1965	Un-justified expenditure on account of Conveyance Charges	3.412
2	PD	F-04-22	DP-1966	Inadmissible payment of deputation allowance	0.228
3	PD	F-04-22	DP-1967	Inadmissible payment of disparity reduction allowance	0.395
4	PD	F-04-22	DP-1968	Un-authorized retention of government vehicles (LMKR project)	-
5	PD	F-04-22	DP-1969	Non-recovery of 25% extra rent on high-rise building	45.094
6	PD	F-10-22	DP-2120	Inadmissible payment of disparity reduction allowance	0.801
7	PD	F-10-22	DP-2122	Un-justified procurement of Toners and Papers Rims	4.003
8	PD	F-10-22	DP-2123	Un-justified purchases on account of technical items	7.110
9	PD	F-10-22	DP-2124	Irregular procurements of different purchases	7.581
10	PD	F-01-22	1	Un-justified expenditure on account of Conveyance Charges	0.100
11	PD	F-01-22	2	Un-justified vacant Post of Chief Inspector Mines	-
12	PD	F-01-22	3	Irregular drawl of TA advances	0.190
13	PD	F-01-22	4	Un-Authorized expenditure on account of transport and POL	0.162
14	PD	F-01-22	5	Non conducting of internal audit	-
15	PD	F-01-22	2	Non-production of record	-
16	PD	F-01-22	3	Irregular expenditure on repair of vehicles	1.884
17	PD	F-01-22	4	Irregular expense of account of light refreshment	0.972
18	PD	F-01-22	6	Excess payment of house requisition than rent assessed as per lease agreement	0.152

19	PD	F-01-22	7	Un-justified expenditure on account of Conveyance Charges	0.721
20	PD	F-01-22	9	Non- creation of position of Chief Internal Auditor	-
21	PD	F-01-22	12	Non deposit of General Sales Tax (GST) by the suppliers	2.800
22	PD	F-01-22	14	Non-conducting of internal audit and non-conducting of physical verification of stores / stock	-
23	PD	F-01-22	15	Inadmissible grant of additional Charge of Accounts Officer	0.171
24	PD	F-04-22	6	Un-authorized expenditure on account of re-imbursement of medical charges	0.109
25	PD	F-04-22	2	In-admissible award of honorarium	0.137
26	PD	F-04-22	3	Irregular award of space to LMKR without charging rent	10.074
27	PD	F-04-22	4 & 5	Irregular payment of house rent allowance / hiring / and non-recovery of house rent charges and transfer grant of the family from the deputations' officers having government accommodation at Quetta	0.653
28	PD	F-04-22	12	Un-authorized expenditure on POL of 3 vehicles	1.393
29	PD	F-04-22	13	Non-production of record	-
30	PD	F-04-22	14	Doubtful purchase of laptops on account of plant Machinery and hardware	1.813
31	PD	F-04-22	15	Non-conducting of internal audit and non-conducting of physical verification of stores/stock	-
32	PD	F-04-22	16	Irregular payment of advance expenditure on POL	0.087
33	PD	F-04-22	18	Excess payment of house requisition than rent assessed as per lease agreement	1.118
34	DG (PC)	F-20-22	DP-2107	Non-realization of 15 % of well Head Value from PPL	76.394
35	DG (PC)	F-20-22	DP-2113	Non-authenticity of RPC data from DG (PC) and non-observance of Internal Control with respect of RPCs	-

36	DG (Oil)	F-02-22	5	Inadmissible refund and misclassification of refunded amount	80.357
37	DG (Oil)	F-02-22	DP-1953	Exchange loss occurred due to late payment of guaranteed payment to PAPCO	2,409
38	DG (Oil)	F-02-22	DP-1957	Failure of Petroleum Division to make arrangements for discharging of committed PDC	7,316
39	GSP	F-17-22	DP-2227	Irregular hiring of services without tender / contract	7.752
40	GSP	F-17-22	DP-2228	Non-recovery / adjustment of advances given to GSP employees	15.853
41	GSP	F-17-22	DP-2229	Irregular/unjustified payment of TA/DA to DG GSP Quetta	2.278
42	GSP	F-17-22	DP-2230	Non-realization of income tax from bidders on auctioned vehicles	0.830
43	GSP	F-17-22	DP-2231	Blockage of revenue due to non-auction of off-road / condemned vehicles valuing	13.200
44	GSP	F-17-22	DP-2232	Irregular grant of hiring of residential accommodation out of place of posting and payment of rent	2.038
45	GSP	F-17-22	DP-2233	Loss of rental income due to allotment of rooms of bachelor hostel and rest house at nominal charges	1.238
46	GSP	F-17-22	DP-2234	Unauthorized / irregular re-appropriation of budget grant	47.762
47	GSP	F-17-22	DP-2235	Irregular / doubtful expenditure on POL and repair of vehicles	4.653
48	GSP	F-17-22	DP-2237	Non-transfer of assets to regular GSP setup after completion of the projects	31.559
49	GSP	F-17-22	DP-2238	Splitting of expenditure to avoid competitive bidding besides misuse of funds of project	34.086
50	GSP	F-17-22	DP-2239	Irregular / doubtful expenditure on repair of assets	2.309
51	GSP	F-17-22	DP-2240	Difference between assets acquired and enter into the project stock register	22.167
52	GSP	F-17-22	1	Un-authorized expenditure on reimbursement of medical charges	0.488

53	GSP	F-17-22	2	Excess payment of house requisition than rent assessed as per lease agreement	0.982
54	GSP	F-17-22	3	Un-authorized expenditure on repair of Government vehicles	0.876
55	GSP	F-17-22	4	Un-authorized expenditure on POL of vehicles	1.030
56	GSP	F-17-22	5	Non-conducting of internal audit and non-conducting of physical verification of stores / stock	-
57	GSP	F-17-22	6	Irregular expenditure on account of TA on retirement	0.339
58	GSP	F-17-22	7	Non deposit of General Sales Tax (GST) by the suppliers	0.600
59	GSP	F-17-22	8	Delay processing of claim resulted in non-encashment of cheque, lapse of funds and undue creation of liability	0.849
60	GSP	F-17-22	9	Irregular payment through cash instead of crossed cheques	0.456
61	GSP	F-17-22	10	Un-justified late deposit of Government receipts	2.304
62	GSP	F-17-22	11	Doubtful drawl of POL on Government vehicle GW-010 Prado	0.757
63	GSP	F-17-22	12	Non-auction of condemned 20 Government vehicles / parts	-
64	GSP	F-17-22	13	Irregular annual procurement of different purchases	13.286
65	GSP	F-17-22	14	Mis-procurement on different head of accounts	0.782
66	GSP	F-17-22	15	Non-maintenance of consumption record of stationery	0.337
67	DOE	F-11-22	6	Refund of security to the licensee without the disposal of explosive stock	-
68	DOE	F-11-22	9	Failure to get the cases finalized pending in the court	-
69	DOE	F-11-22	10	Non conducting of internal audit	-
70	DOE	F-11-22	DP-2117	Sale of smuggled and adulterated petrol and diesel	118.670
71	DOE	F-11-22	DP-2118	Variation in departmental and AGPR figures	39.520
72	DOE	F-11-22	DP-2119	Delay in the auction of condemned vehicles	-

73	DOE	F-11-22	DP-2282	Illegal / unauthorized possession & storage of explosives	-
74	DOE	F-11-22	DP-2283	Non-existence of evaluation and monitoring mechanism of fortnightly reports submitted by explosive licensees	-
75	DOE	F-11-22	DP-2284	Site operational without having a license	-
76	DOE	F-11-22	DP-2285	Unauthorized / illegal sale / transfer of explosives by M/s Wah Associates and M/s Eastern Testing Services	-
77	HDIP	F-09-22	9	Unauthorised use (non-refundable) received from M/s APL before execution of contract to lease out 4 CNG stations	36.800
78	HDIP	F-09-22	13	Non-compliance of Statutory Obligations and objectives under HDIP Act No. I of 2006	-
79	HDIP	F-09-22	29	Irregular payment of Accommodation Allowance	16.464
80	HDIP	F-09-22	34	Unjustified payment to the members for attending Board of Governor's meetings	0.570
81	HDIP	F-09-22	35	Inadmissible expenditure on payment of internet charges	0.776
82	HDIP	F-09-22	36	Irregular appointment of General Manager (ESG-5) for HDIP operations office, Karachi	-
83	HDIP	F-09-22	38	Non-maintenance of Service Books and leave accounts of non-gazetted staff of HDIP	-
84	HDIP	F-09-22	39	Non-verification of certificates / degrees of HDIP's employees	-
85	HDIP	F-09-22	40	Irregular payment of computer allowance	0.270
86	HDIP	F-09-22	41	Non-recovery of normal rent at the rate of five percent on accommodation allotted to OIC Peshawar	0.350
87	HDIP	F-8-22	DP-2072	Non-maintenance of Professional Accounting System Software by HDIP	-
88	HDIP	F-8-22	DP-2074	Recurring revenue loss due to non-assignment of inspection of all the CNG stations by OGRA to HDIP	223.000

89	HDIP	F-8-22	DP-2077	Finalization of audit report without financial statements by the Chartered Accountant on the basis of un-prepared financial statements by the management	-
90	HDIP	F-8-22	DP-2079	Non-framing of Contributory Provident Fund Rules with consultation of Federal Government	-
91	HDIP	F-8-22	DP-2080	Non-reporting of off-spec results to OGRA	-
92	HDIP	F-8-22	DP-2081	Non-conducting financial audit by chartered accountant since 2018-19	-
93	HDIP	F-8-22	DP-2083	Non-maintenance of Fixed Asset registers by the HDIP since inception	-
94	HDIP	F-8-22	DP-2088	Non-recovery of outstanding dues from blending and reclamation plant	9.610
95	HDIP	F-8-22	DP-2089	Non-recovery of inspection fee of CNG stations from OGRA	6.790
96	HDIP	F-8-22	DP-2090	Late submission of audit reports by Zahid Jamil & Co Chartered Accountant	-
97	HDIP	F-8-22	DP-2091	Inadmissible payment of additional charge allowance to employees of HDIP in projects	4.952
98	HDIP	F-8-22	DP-2092	Irregular utilization of expenditure of the services of HDIP employees by the Ministry of Energy (Petroleum Division)	8.817
99	HDIP	F-8-22	DP-2093	Non-deduction of Sales Tax on inspection fee of blending plants and LMC	3.115
100	HDIP	F-8-22	DP-2094	Increase in the cost by 66%valuing due to change in scope of repair work	1.379
101	PSO	F-4-22	2	Irregular award of contract due to violation of PPRA Rules	1.731
102	PSO	F-4-22	5	Irregular award of contract due to violation of PPRA Rules	2.121
103	PSO	F-4-22	2	Irregular award of contract without competitive bidding	2.355
104	PSO	F-4-22	6	Non-imposition of financial penalty for short measurement of POL products	2.230

105	PSO	F-4-22	9	Non-integration of terminal operation with SAP application at Mahmood Kot installation	-
106	PSO	F-4-22	6	Unjustified procurement of servers on higher price	27.873
107	PSO	F-4-22	8	Irregular award of contracts after negotiation in violation of PPRA Rules	50.952
108	PSO	F-5-22	7	Non-imposition of liquidated damages on award contract	0.38
109	PSO	F-4-22	DP-1975	Mis-procurement of material through negotiated tendering	5.148
110	PSO	F-4-22	DP-1976	Non-encashment of bank guarantee and non-blacklisting the vendor	15.151
111	PSO	F-4-22	DP-1978	Irregular appointment of Deputy General Manager (New Ventures) due to non-fulfilling of the requirements of the post	-
112	PSO	F-4-22	DP-1979	Non-implementation of rotation policy in the company resulted into non development of employees	-
113	PSO	F-4-22	DP-1983	Loose monitoring of LNG contract resulting in bearing the extra cost of litigation for recovery of overcharging of Port Charges the by vendor	181.411
114	PSO	F-4-22	DP-2128	Non-imposition of financial penalty for short measurement of POL products	13.200
115	PSO	F-4-22	DP-2131	Non-forfeiture of security deposit from inactive distributor due to non-submission of cylinders / equipment of PSO	7.075
116	PSO	F-4-22	DP-2133	Unjustified procurement of aviation equipment on higher price	6.380
117	PSO	F-4-22	DP-2213	Delay completion of construction of petroleum storage tanks resulting in failure in enhancing the days cover	1,590.710
118	PSO	F-4-22	DP-2215	Abnormal working losses in warehouses resulted in a loss to company	113.160
119	PSO	F-4-22	DP-2216	Unjustified storage of PMG of other companies in facility of	-

				PSO due to non-execution of agreement	
120	PSO	F-4-22	DP-2219	Unjustified expenditure on remodelling of Shop Stop due to expiry of the agreement	3.975
121	PPL	F-6-22	DP-2245	Non-performance of committed work units as per PCA	-
122	PPL	F-6-22	DP-2249	Approval of budget for exploratory well without technical & financial feasibility	1,571.985
123	PPL	F-6-22	DP-2252	Non-achievement of targeted production of Oil & Gas as per PPL Production Plan resulting in lesser production valuing	8,134.197
124	PPL	F-6-22	DP-2254	Irregular / Unjustified expenditure on Drilling	14,509.201
125	PPL	F-6-22	DP-2287	Non-payment of GDS	14,814.670
126	PPL	F-6-22	DP-2296	Undue / un-necessary blockage of un-utilized amount due to excessive budget allocation	5,740
127	PPL	F-12-22	2	Non-realization of interest on non-payment of Gas Development Surcharge	2,222.201
128	PPL	F-12-22	4	Pending court cases involving Professional fee of	172.193
129	PPL	F-12-22	4	Non-disposal of Adhi plant-I despite being declared redundant – blockade of millions of rupees	-
130	PPL	F-12-22	8	Irregular payment of donations and sponsorships to various organizations	66.900
131	PPL	F-12-22	10	Irregular / un-economical procurement of engine oil in violation of PPRA Rules	6.394
132	OGDCL	F-6-22	DP-1992	Award of contract for crude transportation in violation of National Safety Ordinance, 2000	606.890
133	OGDCL	F-6-22	DP-1996	Excess / Irregular payment on security services	6.152
134	OGDCL	F-6-22	DP-2008	Non-withholding of sales tax on purchase from un-registered suppliers	7.810
135	OGDCL	F-6-22	DP-2013	Un-justified expenditure due to excess consumption of HSD	125.946
136	OGDCL	F-3-22	DP-2014	Loss due to non- adjustment of advance tax paid @2% on purchase of land	1.494

137	OGDCL	F-15-22	DP-2021	Non formation of policy to control the wastage of wood (from trees / plant)	168.691
138	OGDCL	F-19-22	DP-2026	Non-disclosure of contingencies regarding not paid index rent	246.768
139	OGDCL	F-19-22	DP-2027	Failure to comply the environmental law and health & safety standards	18.340
140	OGDCL	F-6-22	DP-2028	Un-justified excess expenditure on hiring of extra labour	697.257
141	OGDCL	F-15-22	DP-2030	Irregular payment of rent without valid lease agreement-	1.983
142	OGDCL	F-19-22	DP-2037	Unjustified Expenditure on payment of salaries to officers more than sanctioned strength	214.438
143	OGDCL	F-19-22	DP-2039	Irregular exclusion of 8% capping in violation of Board Policy	4.714
144	OGDCL	F-19-22	DP-2040	Unlawful removal of qualification bar for OGDCL officers resulting in unlawful promotion and payment of pay and allowances	21.341
145	OGDCL	F-3-22	DP-2044	Irregular-procurement through direct contracting above the prescribed limits of PPRA Rules, 2004	91.701
146	OGDCL	F-19-22	DP-2046	Conflict of interest in award of contract and defective inquiry resulting in short-recovery of penalty	3.265
147	OGDCL	F-19-22	DP-2047	Non-framing of Standard Operating Procedures for blind drilling resulted in loss	1.943
148	OGDCL	F-3-22	DP-2048	Non-black-listing of the bidders due to submission of forged ISO certificate and non-deposit of performance bond	-
149	OGDCL	F-19-22	DP-2050	Loss due to non-charging of sales tax on sale of oil	1.713
150	OGDCL	F-19-22	DP-2306	Non-existence of policy regarding payment of legal fee on identical cases	4.685
151	OGDCL	F-19-22	DP-1993	Non-recovery of outstanding balances of cash calls from various JV partners	-
152	SNGPL	F-22-22	21	Non imposition of Late Completion / Provision of Services Charges on contractor	0.239

153	SNGPL	F-24-22	DP-1835	Loss due to non-forfeiture of Performance Bank Guarantee	54.270
154	SNGPL	F-24-22	DP-1837	Non-recording of procured items into store / stock register	25.090
155	SNGPL	F-24-22	DP-1838	Improper maintenance of procurement record	45.130
156	SNGPL	F-24-22	DP-1840	Non-disposal of scrapped items	40.047
157	SNGPL	F-24-22	DP-1842	Non-production of record	-
158	SNGPL	F-22-22	DP-1924	Non-approval of jobs despite budget availability	75.170
159	SNGPL	F-22-22	DP-1926	Loss of to the Government due to non-deposit of Rashakai-Camp setup cost	20.000
160	SNGPL	F-22-22	DP-1930	Wasteful expenditure on gas development job	9.871
161	SNGPL	F-22-22	DP-1931	Loss of due to un-authorize release of material after commissioning of 6" & 10" dia pipelines	8.789
162	SNGPL	F-22-22	DP-1934	Mis-reported commissioning of transmission line without - installation of essential material	-
163	SNGPL	F-22-22	DP-1937	Un-authorized preparation and certification of PC-I by executing agency / non-compliance of instructions of Planning Commission	-
164	SNGPL	F-22-22	DP-1940	Non-preparation of Material Reconciliation and BOQ Reconciliation Reports	-
165	SNGPL	F-23-22	DP-1946	Non-recovery of gas theft charges evaluated by Head Office Evaluation and Detection Committee	242.258
166	SNGPL	F-23-22	DP-2171	Non-encashment / re-validation of bank guarantees	704.913
167	SNGPL	F-23-22	DP-2175	Non-recovery of outstanding amount due to inefficiency of the contractor	312.588
168	SNGPL	F-23-22	DP-2179	Non-existence of Reward / Penalty Scheme under KMIs approved by OGRA	-
169	SNGPL	F-23-22	DP-2181	Appointment of the Chartered Accountants firm without concurrence by the Auditor General of Pakistan	-

170	SNGPL	F-23-22	DP-2187	Conflict of interest in appointment of Director without ensuring its independence	-
171	SNGPL	F-23-22	DP-2188	Appointment of Director of SNGPL without approval of Federal Cabinet	-
172	SNGPL	F-23-22	DP-2190	Non-circulation of minutes of board meetings within prescribed timelines	-
173	SNGPL	F-23-22	DP-2197	Non-recovery of finance cost due to delayed release of subsidy for supply of gas to fertilizer plants	1.096
174	SNGPL	F-23-22	DP-2206	Loss on account of UFG due to non-de-looping of looped TBS clusters	42.840
175	SSGC	F-13-22	11	Abnormal delay in procurement of Turbo Correctors (TOC)	-
176	SSGC	F-13-22	12	Irregular procurement from 2nd lowest bidder resulting into excess payment	1.875
177	SSGC	F-13-22	13	Unjustified declaring authorized agent of OME	66.067
178	SSGC	F-13-22	16	Wastage of public money due to acceptance of defective equipment	3.277
179	SSGC	F-13-22	17	Violation of procurement policy as a result of non-updating of proprietary items in ERP systems	-
180	SSGC	F-13-22	25	Non-recording of minutes of weekly meeting on UFG	-
181	SSGC	F-13-22	DP-1848	Non-forfeiture of bank guarantees due to non-replacement of rejected material	2.200
182	SSGC	F-2-22	DP-1849	Non-imposition of liquidity damages charges	12.438
183	SSGC	F-2-22	DP-1852	Blockage of funds due to unnecessary procurement	13.310
184	SSGC	F-2-22	DP-1853	Non-disposal of retired vehicles	25.779
185	SSGC	F-2-22	DP-1854	Non-conducting of physical verification of stores	-
186	SSGC	F-2-22	DP-1858	Loss due to non-pursuance of recovery suit	3.084
187	SSGC	F-2-22	DP-1859	Non-filing of application for vacation of stay order	48.096
188	SSGC	F-2-22	DP-1861	Loss due to delay in filing of recovery suit	5.654

189	SSGC	F-2-22	DP-1863	Dismissal of recovery suit due to non-provision of documents in court	6.326
190	SSGC	F-2-22	DP-1864	Irregular award of contracts to 2 <sup>nd</sup> lowest bidders	7.784
191	SSGC	F-2-22	DP-2244	Non-referral of supplier for blacklisting to PPRA	-
192	SSGC	F-2-22	DP-2256	Loss due to theft of G1.6 meters	0.436
193	SSGC	F-2-22	DP-2261	Continuous loss and increasing trend of UFG due to negligence and poor performance	-
194	SSGC	F-2-22	DP-2263	Excess working strength of Staff	-
195	SSGC	F-2-22	DP-2269	Non-pointing out the obsolete/damaged items for disposal	-
196	SSGC	F-2-22	DP-2270	Loss due to theft of solar system, machinery and equipment	20.391
197	SSGC	F-2-22	DP-2271	Non-finalization enquiry against Engineer, Distribution Department (East)	-
198	SSGC	F-2-22	DP-2273	Unjustified re-processed cost of gas meters	3.803
199	SSGC	F-2-22	DP-2275	Non completion of work contract due to negligence of the management valuing	8.844
200	PLL	F-16-22	13	Non-compliance of Supreme Court Judgement resulting in irregular payment of salary	22.760
201	PLL	F-16-22	16	Misclassification of head of accounts under the head Advances to Employees	5.020
202	PLL	F-16-22	18	Irregular BoD meeting due to non-passing resolutions	3.400
203	PLL	F-16-22	20	Excess expenditure on account of POL and repair / maintenance of vehicles due to unauthorized allocation of vehicle	0.280
204	PLL	F-16-22	DP-1896	Loss due to improper contract management for regasification	9.1480
205	PLL	F-16-22	DP-1900	Delay in finalization of audited accounts and waiver of penalty imposed by FBR	70.859
206	PLL	F-16-22	DP-1903	Irregular Payment on excess quantity of LNG	485.656
207	PLL	F-16-22	DP-1906	Non-appointment of regular Chief Executive Officer	-

208	PLL	F-16-22	DP-1907	Inadmissible payment of Remuneration to Chief Executive Officer in addition to additional Charge Allowance	5.000
209	PLL	F-16-22	DP-1908	Blockage of revenue due to delayed submission of final claim of RLNG price	-
210	PLL	F-16-22	DP-1909	Short-deduction of income tax due to unlawful adjustment of income tax	1.040
211	PLL	F-16-22	DP-1913	Non-fulfilment of vacant posts due to defective HR manual	7.100
212	PLL	F-16-22	DP-2288	Short payment of Royalty on the sale of Gas / LPG / Crude Oil & NGL from various customers / fields	-
213	PLL	F-16-22	DP-2293	Non-furnishing of contract awards over Rs 50 million to NAB in violation of NAB Ordinance, 1999	-
214	PLL	F-16-22	DP-2294	Irregular appointments of BoD members without approval of the Prime Minister	-
215	PMDC	F-08-22	20	Threat of malpractice and non-availing the expected revenue due to non-installation of weigh bridge at Mari Section	0.706
216	PMDC	F-9-22	DP-1869	Huge expected loss due to delay in pursuance of legal case and dismissed as time barred regarding surface rent	-
217	PMDC	F-9-22	DP-1872	Non formulation of Significant Policies	-
218	PMDC	F-9-22	DP-1877	Unjustified payment of excavation and carriage charges to a deceased person	7.084
219	PMDC	F-9-22	DP-1878	Irregular withdrawal of CDR amount	5.000
220	PMDC	F-9-22	DP-1879	Irregular appointment due to non-recognized degree from HEC	3.278
221	PMDC	F-9-22	DP-1880	Loss due to early encashment of Provident Fund	2.952
222	PMDC	F-9-22	DP-1881	Loss of revenue due to non-rent out of shops in Kala Bagh city	4.637
223	PMDC	F-9-22	DP-1882	Non-forfeiture of security deposit	0.950
224	PMDC	F-9-22	DP-1884	Loss of revenue due to non-adjustment of input tax on PRA Sales Tax	11.980

225	PMDC	F-9-22	DP-1885	Short recovery of cost and service charges of explosive material issued to raising contractors	7.787
226	PMDC	F-9-22	DP-1886	Non-imposition of penalty on raising contractor of salt for non-achievement of annual targets	7.422
227	PMDC	F-9-22	DP-1890	Irregular adjustment of Withholding Tax	0.865
228	PMDC	F-9-22	DP-1892	Delay in completion of inquiries despite lapse of stipulated time	-
229	PMDC	F-9-22	DP-1893	Continuation of business with blacklisted contractors	-
230	ISGS	F-21-22	13	Non-identification of risks and development of risk mitigation procedure / control	-
231	ISGS	F-21-22	14	Inadmissible utilization of GIDC for the purpose of operative and administrative expenses	-
232	ISGS	F-21-22	15	Weak internal control	-
233	ISGS	F-21-22	DP-2055	Non-initiation of Iran Pakistan Gas Pipelines Project	-
234	ISGS	F-21-22	DP-2057	Non-provisioning of 2 % of the actual cost of feasibility study for gas storage development system under IAS 37	2.700
235	ISGS	F-21-22	DP-2061	Non-payment of Income Tax	5.989
236	ISGS	F-21-22	DP-2065	Non-development of corporate strategy	-
237	ENAR	F-14-22	DP-1844	Unjustified payment of electricity charges due to defective agreement	2.890
238	ENAR	F-14-22	DP-1846	Irregular cash advance payments to staff for expenses	1.977
239	ENAR	F-14-22	DP-1847	Irregular advance salary to employees	1.399
240	ENAR	F-14-22	1	Irregular contribution of group insurance of MPT Staff	0.635
241	ENAR	F-14-22	3	Non-recovery of outstanding loan paid to employees	0.194
242	ENAR	F-14-22	6	Non-advertisement of procurement of internet connection facility	0.920
243	ENAR	F-14-22	7	Non-advertisement of procurement of services hired thorough outsourcing	0.531

244	ENAR	F-14-22	8	Non-advertisement of procurement of security appliance	0.719
245	ENAR	F-14-22	9	Doubtful expenditure on repair of air conditioners	0.123
246	ENAR	F-14-22	12	Non-participation in bids and non-obtaining the award of service / work contracts	-
247	ENAR	F-14-22	13	Irregular regularization of the services of contract	-
248	ENAR	F-14-22	14	Irregular contract hiring and regularization of services of contract employee on higher grade	-
249	ENAR	F-14-22	15	Non-settlement of Income Tax demand	71.404
250	ENAR	F-14-22	16	Non-conducting of internal audit	-
251	ENAR	F-14-22	17	Non-conducting of physical verification of fixed assets	-
252	OGRA	F-07-22	39	Non recovery of house building advance	0.65
253	OGRA	F-07-22	DP-2137	Delay in the determination of final revenue requirements (FRR) of SSGC by OGRA	-
254	OGRA	F-07-22	DP-2143	Irregular expenditure under the head entertainment charges	10.813
255	OGRA	F-07-22	DP-2147	Excess payment of allowances during leave	1.578
256	OGRA	F-07-22	DP-2149	Irregular obtaining of mailing services from M/s TCS instead of Pakistan Post, also causing loss due to expensive rates	1.563
257	OGRA	F-07-22	DP-2152	Excess / dual payment of price differential claim (PDC)	14.106
258	OGRA	F-07-22	DP-2155	Non-adjustment of temporary advances to employees and vendors	7.600
259	OGRA	F-07-22	DP-2156	Failure of OGRA to implement its decisions regarding rationalization of HR cost of SNGPL and SSGC	-
260	OGRA	F-07-22	DP-2157	Unjustified investment in treasury bills instead of remitting the same top Federal consolidated Funds along with interest	1,184.384
261	OGRA	F-07-22	DP-2158	Irregular expenditure on account of POL	9.630

262	OGRA	F-07-22	DP-2160	Non-provision of record of price differential claims (PDCs)	-
263	OGRA	F-07-22	DP-2161	Price Differential Claims (PDCs) without supporting documents	-
264	OGRA	F-07-22	DP-2162	Non-realization of Annual License Renewal Fee	814.038
265	OGRA	F-07-22	DP-2243	Occurrence of regulatory capture due to unprecedented / unlawful benefit to ex-Chairperson OGRA	-

## Annexure-2(i)

### Audit profile of Ministry of Energy (Petroleum Division)

(Rs in million)

Sr. No.	Description	Total Nos.	Audited	Expenditure involved FY 2021-22	Revenue / Receipts involved FY 2021-22
<b>1</b>	<b>MoE (PD)/Bodies/Dep.</b>				
	<b>Audited MoE (PD)/Bodies/Dep.</b>				
(i)	Ministry of Energy (PD)	1	1	428.583	<b>296,071.000</b>
(ii)	GSP	1	1	889.372	-
(iii)	HDIP (expenditure & receipts)	1	1	112.000	-
(iv)	Department of Explosives	1	1	93.280	588.192
	<b>Profile of MoE (PD)/Bodies/Dep.</b>	<b>4</b>	<b>4</b>	<b>1,523.235</b>	<b>296,659.192</b>
<b>2</b>	<b>Autonomous Bodies / PSEs etc. under the PAO</b>				
	<b>Audited Autonomous Bodies / PSEs etc. under the PAO</b>				
(i)	OGDCL	1	1	301,447.142	436,089.495
(ii)	PPL	1	1	172,538.608	249,384.095
(iii)	PSO	1	1	2,396,432.695	2,722,568.206
(iv)	SNGPL	1	1	821,810.530	876,893.034
(v)	SSGC	1	1	335,934.927	15,429.311
(vi)	PLL	1	1	207,915.858	243,277.619
(vii)	ISGS	1	1	348.982	8.213
(viii)	PMDC	1	1	2,771.813	3,652.691
(ix)	ENAR	1	1	149.885	169.313
		<b>9</b>	<b>9</b>	<b>4,239,350.440</b>	<b>4,547,471.977</b>
<b>3</b>	<b>Un-Audited Autonomous Bodies / PSEs etc. under the PAO</b>				
(i)	LCDCL	1	-	0	0
(ii)	GHPL	1	-	44,479.931	80,295.567
(iii)	SML	1	-	5,236.338	7,669.155
(iv)	MPCL	1	-	118,001.587	113,500.945
(v)	PARCO	1	-	0	0
		<b>5</b>	<b>-</b>	<b>167,717.856</b>	<b>201,465.667</b>
	<b>Profile of autonomous Bodies / PSEs etc. under the PAO</b>	<b>14</b>	<b>9</b>	<b>4,407,068.286</b>	<b>4,748,937.644</b>

(Source: Annual Audited Accounts)

(LCDCL is not performing its function due to non-renewal of Lakhra lease by Sindh Government which was under litigation. PARCO refused to get audited and audited accounts were not available)

**Annexure-2(ii)****Audit profile of OGRA under Cabinet Division**

(Rs in million)

Sr. No.	Description	Total Nos.	Audited	Expenditure audited FY 2021-22	Revenue audited FY 2021-22
1	<b>OGRA</b>	<b>1</b>	<b>1</b>	<b>1,483.378</b>	<b>1,811.658</b>

(Source: Annual Audited Accounts)

### Annexure-3

#### Non-submission of Annual Audited Accounts by PSEs

Annual audited accounts of Public Sector Enterprises for the financial year 2021-22 were to be provided to the Directorate General Audit, Petroleum and Natural Resources, Lahore by December 31, 2022. Despite requests, the below mentioned organizations did not provide their annual audited accounts for the year 2021-22 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
<b>Petroleum Division</b>		
1	SNGPL	2021-22
2	SSGC	2020-21 & 2021-22
3	LCDCL	2018-19 to 2021-22
4	PLL	2021-22
5	ISGS	2021-22
6	PMDC	2021-22
7	GHPL	2021-22
<b>Cabinet Division</b>		
8	OGRA	2021-22

**Annexure-4(i)**  
**(Para 2.1.4.10)**

**Non-redressal of long outstanding issues and operational lapses by  
Petroleum Division and OGRA resulting in oil shortage**

(Quantity in M. Tone)

OMCs	Sales July, 19 to May, 20	Average sales per day	Opening stock	Mandatory stock required	Excess / (Less) than mandatory stock	Shortfall (No. of days)
PSO	2,530,940	7,670	80,272	153,390	(73,118)	(10)
SPL	756,152	2,291	18,447	45,827	(27,380)	(12)
APL	606,332	1,837	22,255	36,747	(14,492)	(8)
TPPL	917,413	2,780	11,600	55,601	(44,001)	(16)
BYCO	238,047	721	1,408	14,427	(13,019)	(18)
BEE	180,404	547	1,129	10,934	(9,805)	(18)
PUMA	137,325	416	1,782	8,323	(6,541)	(16)
Askar	117,683	357	544	7,132	(6,588)	(18)
Others	1,296,086	3,928	95,542	78,551	16,991	4
<b>Total</b>	<b>6,780,382</b>	<b>20,547</b>	<b>232,979</b>	<b>410,932</b>	<b>(177,953)</b>	<b>(9)</b>

**Annexure-4(ii)**

(Quantities in M Ton)

Description	May, 2020	June, 2020			
		PRM dated 06.05.20	PRM dated 13.05.20	PRM dated 04.06.20	PRM dated 08.06.20
Demand determined by PRM	577,700	614,500	714,900	869,400	856,500
Refinery availability	239,200	205,000	162,400	162,400	154,500
Deficit	341,121	422,047	489,347	520,857	518,557
Import planned	338,500	409,500	552,500	707,000	702,000
Refinery production	274,880	177,000			
Actual sales by refineries	275,122	164,653			
Stock held by refineries	24,503	37,261			

(Source: Data provided by the OCAC)

**Annexure-5**  
**(Para 2.1.4.11)**

**Inaction against delinquent OMCs and departmental officials for oil shortage**

(Quantity in M. Tone)

OMC	Actual Imports as per PRM	Dates of NOR	Date of actual berthing	Date of pumping	cleared in (Ex-bonded)	Qty not cleared / imported up to June 26, 2020	Qty cleared / imported up to June 30, 2020 as per port record	Qty cleared / imported up to June 30, 2020 as per Ex-Bonded
PSO	57,520	31.05.20	31.05.20	02.06.20	08.06.20	-	57,520	57,520
	57,738	05.06.20	06.06.20	09.06.20	11.06.20	-	57,738	57,738
	56,695	13.06.20	14.06.20	18.06.20	19.06.20	-	56,695	56,695
	57,365	17.06.20	17.06.20	20.06.20	23.06.20	-	57,365	57,365
	58,737	22.06.20	24.06.20	29.06.20	29.06.20 to 05.08.20	58,737	58,737	26,926
	57,488	27.06.20	28.06.20	30.06.20	06.07.20	57,488	-	-
SPL	34,290	08.06.20	09.06.20	11.06.20	17-22.06.20	-	34,290	34,290
	23,974	22.06.20	24.06.20	26.06.20	30.06.20 to 10.07.20	23,974	23,974	11,920
	22,000	22.06.20	29.06.20	02.07.20	10.07.20 to 17.07.20	22,000	-	-
APL	30,000	16.06.20	19.06.20	22.06.20	29.06.20 to 07.07.20	30,000	31,007	10,000
TPPL	30,000	11.06.20		12.06.20		-	30,000	30,000
	21.06.20	21.06.20			01.02.07.20	35,000	36,999	-
BEE	28.05.20	05.06.20			03.06.20 to 29.06.20	8,500	10,000	3,500
PUMA	28.05.20	05.06.20			11.06.20	-	4,982	4,982
	16.06.20	21.06.20			24-26.06.20	-	5,237	5,237
	5,000	15.06.20	29.06.20	01.07.20	06-09.07.20	4,990	-	-
Others	135,951					52,938	83,019	83,019
<b>Total</b>	<b>682,008</b>					<b>293,627</b>	<b>547,563</b>	<b>439,192</b>
<b>Difference between quantity cleared from port and quantity cleared from customs for marketing up to June 30, 2020 through ex-bonding</b>								<b>108,371</b>
<b>Difference between quantity allocated in PRM and quantity cleared from customs for marketing up to June 30, 2020 through ex-bonding (702,000-439,192)</b>								<b>262,808</b>

**Annexure-5(ii)**  
**(Para 2.1.4.11)**

**Inaction against delinquent OMCs and departmental  
officials for oil shortage**

(Quantities in M. Tone)

OMCs	Sales reported to PRM		Actual Sales as per Custom Clearance		% of inc. / (dec.) in market share
	Qty	% of market shares	Qty	% of market shares	
PSO	356,856	48.60%	286,607	47.2%	-1.4%
TPPL	89,611	12.20%	53,488	8.8%	-3.4%
SPL	69,733	9.50%	34,926	5.8%	-3.7%
APL	54,331	7.40%	33,826	5.6%	-1.8%
BYCO	23,909	3.30%	23,909	3.9%	0.6%
BEE	6,006	0.80%	3,444	0.6%	-0.2%
AOSPL	6,416	0.80%	10,390	1.7%	0.9%
PUMA	9,947	1.40%	9,736	1.6%	0.2%
Others	118,091	16.00%	150,862	24.8%	8.8%
<b>Total</b>	<b>734,900</b>	<b>100.00%</b>	<b>607,188</b>	<b>100%</b>	

**Annexure-6**  
**(Para 3.1.4.1)**

**Non-production of record by OGRA**

<b>Req. No.</b>	<b>Item No.</b>	<b>Subject</b>	<b>Remarks</b>
01 dated 28.07.2022	4	Audited Accounts / financial statements for the year 2021-22	-
-do-	6	Record/details / Copy of show cause notices issued for recovery of outstanding fee, fine & Penalties from licensees and recoveries affected.	Incomplete / partial record provided.
-do-	15	Detail / record of finalized / pending disciplinary cases as on 30.06.2022	-
-do-	17	Weekly, monthly, quarterly and annually reports / returns submitted to Federal Government	-
-do-	18	Head wise fee receivable and received against each case of license along with receipt evidence	Instead of providing the relevant files / record, the management informed that according to note No. 23 of the financial statements, there were no receivables. However, the audit needs the record essentially in relation with some amounts observed as receivables.
-do-	19	List of Cases referred to government for clarification / seeking advices	-
-do-	21	Detail record of show cause notices issued to companies / licensees due to violation of any provisions of Rules / Regulations	The management replied that “in the light of the opinion of the Attorney General of Pakistan dated September 16, 2021, conveyed by the Cabinet Division vide dated October 12, 2021, the matter of audit of regulatory functions of OGRA was still pending before the Federal Government. The same shall be dealt accordingly”.
-do-	22	Detail of Penalties imposed and	As above.

		their waiver off against violation of any provisions of law or license conditions	
-do-	23	Internal audit reports for last two years	Internal audit report was not provided.
-do-	24	Details of inspection fee receivable from licensees of OMC, CNG, LPG and LNG	-
-do-	25	Annual/Monthly inspection targets and inspection reports for year 2021-22 in respect of: <ul style="list-style-type: none"> <li>• OMC</li> <li>• Oil storage</li> <li>• Petrol pumps</li> <li>• Refineries</li> </ul>	The management replied that “in the light of the opinion of the Attorney General of Pakistan dated September 16, 2021, conveyed by the Cabinet Division vide dated October 12, 2021, the matter of audit of regulatory functions of OGRA was still pending before the Federal Government. The same shall be dealt accordingly”.
-do-	26	Files of licenses granted for the business of Oil, Gas, LPG, CNG and LNG	As above.
-do-	27	List of OMCs and LPG companies having provisional license but allowed marketing with copies of initial license, extension and marketing license	As above.
-do-	28	Copy of Monthly Summaries sends to Finance & Cabinet Divisions regarding fixation of price for oil & gas products for the financial year 2021-22	As above.
-do-	29	Details/ record of total applications received for issuance of licenses in respect of Oil, Gas, LPG, CNG and LNG	As above.
-do-	30	Case files of Price Fixation formulas of different petroleum products such as Oil and Gas, LPG and LNG	As Above.
-do-	32	Review petitions pending in respect of SNGPL and SSGC as on 30.06.2022	As above.
-do-	33	Files of Final / Estimated Revenue	As above.

		Requirement in respect of SNGPL and SSGC for the year 2021-22	
-do-	34	Detail / case file including therein working / calculation of well head price along with copy of the notification	As above.
-do-	35	Minutes of meetings along with agenda items /working papers files of regulatory meetings of Authority	As above.
-do-	36	Files of fine and penalties outstanding, review and appeal of OMCs, LMCs, LPG, RLNG and CNG, including the files fine and penalties imposed on shortage of oil products	As above.
-do-	37	Files of fine and penalties of OMCs retail outlets on variation of quality, quantity and pricing	As above.
-do-	38	Weekly, monthly, quarterly and annually reports/returns received from licensees	As above.
-do-	40	Details/record of non-determination of well head prices	As above.
-do-	41	Files of annual turnover fee of oil & gas companies	As above.
-do-	48	Complaints of dumping and illegal sale of petroleum products nearby retail outlets of OMCs	As above.
-do-	49	Details of non-using of tracker fitted tank/lories	As above.
-do-	50	Record of Price differential claims for the year 2021-22	As above.
03 dated 02.08.2022	1	Record / detail / files relating to UFG claim in respect of RLNG by the gas companies since the start of import of RLNG	As above.
-do-	9	Files of LPG filling station	As above.
-do-	10	Files of LPG cylinder manufacturer	As above.
-do-	11	Files of licenses of CNG and LPG	As above.
-do-	12	Files / detail of fines and penalties under review of CNG and LPG	As above.
-do-	14	Detail of action taken by the authority on non-compliance of performance and service standards by the licensee's along with imposition of penalties with recovery status	As above.
-do-	15	Files / record of tariff determination	As above.

		(Final/ Estimated Revenue Requirements) for regulated activities of licensees of natural gas for the FYs 2020-21 & 2021-22	
-do-	16	Detail / record of action taken on the reservations of interveners during public hearings for determination of FRRs /ERRs of gas companies	As above.
-do-	17	Case file of license granted to Energas Terminal Private Ltd. and Tabeer Energy Private Ltd.	As above.
-do-	20	Detail of pending claims against the licensees for the contravention of the provision of the OGRA Ordinance.	As above.
-do-	44	Detail of annual fees due and received from the licensees for the FY 2021-22 and 2022-23 in soft form, MS Excel format.	As above.
05 dated 05.08.2022	3	Detail of cases assigned to each advocate / legal counsel, aging of the cases, case wise amount paid to advocates and current status of the case.	As above.
-do-	4	Report of audit conducted by M/s International Consulting Associates (Pvt) Limited on determining actual UFG and diversion of RLNG volume to domestic and commercial consumers.	As above.
-do-	9	Withholding taxes (Income tax and Sales tax) returns for the FY 2021-22.	As above.
-do-	14	Detail / information as required	As above.
06 dated 12.08.2022	2	Annual physical stock taking report for the FY 2021-22.	As above.
-do-	4	Detail / record of daily sales of OMCs for the FY 2021-22.	As above.
-do-	5	Minutes along with working papers of Product review meeting (PRM).	As above.
-do-	7	Record / files of appeals received against penalties and decided and pending during the financial year 2021-22.	As above.
08 dated 15.08.2022	1	Freight rates issued by OGRA.	As above.

-do-	2	Minutes of IFEM meetings during 2021-22.	As above.
-do-	3	IFEM claims submitted by OMCs.	As above.
-do-	4	Complaints of dumping and illegal sale of petroleum products nearby retail outlets of OMCs.	As above.
-do-	5	Details of subsequent IFEM claims for the year 2020-21 & 2021-22.	As above.
-do-	6	Details of non-using of tracker fitted tank / lorries.	As above.
-do-	7	IFEM claims approved by OGRA.	As above.
-do-	8	IFEM claim approved by OGRA for Fossil Energy OMC.	As above.
-do-	11	Minutes of meeting with licensees, MoE, OGRA, OCAC and other stakeholders for the FY 2021-22.	As above.
-do-	12	Detail as required.	As above.
08 dated 15.08.2022		Receipt Book maintained under section 13(c ) of the Oil and Regulatory Authority (Financial Regulations, 2005.	As above.

**Annexure-7**  
**(Para 4.1.8.3.17)**

**Persistent low pressure due to non-completion of operational phases and  
segmentation of distribution network**

Region name	O.P. planned	O.P. executed	O.P pending	Remarks
Lahore	07	-	07	Approved by H.O. in 2021-22 but all O.P.(s) were under execution because no completion report provided despite reminders.
Faisalabad	24	9	15	15 O.P.(s) planned in 2020 and approved in November, 2020 and 09 O.P.(s) planned in 2020-21 and approved in 2021-22. For 9 completed O.P.(s) completion reports have been submitted.
Sheikhupura	03	-	03	Planned in 2020-21 but approved in 2022 for execution in 2022-23
Islamabad	23	-	23	12 O.P. (s) were planned / approved in 2019-20 & 2020-21 but these were not completed as no completion report was provided despite requisition / reminders. 11 others O.P.(s) were planned in 2021-22 and approved in 2022 for execution in 2022-23.
Multan	27	1	26	03 O.P. (s) pertaining to previous years and 01 OP of 2020-21 were completed. 26 O.P.(s) were planned / approved in 2020-21 for execution in 2021-22. But all O.P.(s) were pending due to NOC issues and in most of cases pertaining to 2021-22, necessary works like cost estimates, payment of receipts and correspondence was started late in November, 2022.

**Details of incomplete System Augmentation Projects**

Transmission Project	Areas	Laying involved in KM	Status of completion
Lahore City Augmentation (Ph-II)	Barki to Sundar Dial to G.T. Road	22 10	To be completed by December, 2021
Bahawalpur System Augmentation	Khaipur Daha to Bahawalpur	29 Up-gradation of SMS up to 100 MMCFD	To be completed by June, 2021
System Augmentation – Mardan and Peshawar Regions	Charsadda – Khazana – Tangi	–	To be launched

**Annexure-8**  
**(Para 4.1.8.3.20)**

**In-action on HHU complaints**

Sr. No.	Nature of Complaint	Complaints		Grand Total	Remarks / Required Action
		2020-21	2021-22		
1	Commercial Use	2,556	1,477	4,033	Recovery Cases to be initiated after FPR
2	Digit Unreadable	9,421	7,969	17,390	Cause measurement error / UFG
3	Direct Use / theft	15,647	15,213	30,860	Gas Theft Raids / Booking / Recovery / FIR
4	EVC display off	928	1,117	2,045	May result in measurement error Meter replacement / booking
5	FPR due to Commercial Use	1,205	1,332	2,537	Flow Proving Report to be initiated and initiate action for recovery
6	Sticky Meters	7,365	4,605	11,970	Meter replacement- booking / recovery
7	Generator in Use	1,235	1,140	2,375	Warranted disconnection
8	Illegal Meters	3,094	3,909	7,003	Legal action / 100 % site inspection
9	Meters Going Reverse	2,788	3,694	6,482	Cause measurement error / less billing
10	Reading Mismatch	1,103	2,036	3,139	Mismatch charges to be booked / recovered
11	Self re-connection	729	1,043	1,772	Corrective measures
12	Violates Curtailment Policy	1,273	267	1,540	Industrial consumers- provide data along with action taken i.e. booking / recovery
13	Domestic meter in Commercial Use	82	87	169	Recovery to be initiated Provide all data and action taken
14	Commercial meter in Industry Use	12	18	30	
15	Meter Under Size	1,520	1,182	2,702	Measurement error due to excess load may result in under billing
	<b>Total</b>	<b>48,958</b>	<b>45,089</b>	<b>94047</b>	