

**AUDIT REPORT ON
THE ACCOUNTS OF
PETROLEUM DIVISION
AND
OIL AND GAS REGULATORY
AUTHORITY
AUDIT YEAR 2024-25**

AUDITOR-GENERAL OF PAKISTAN

SERVING THE NATION BY PROMOTING ACCOUNTABILITY,
TRANSPARENCY AND GOOD GOVERNANCE IN THE MANAGEMENT
AND USE OF PUBLIC RESOURCES FOR THE CITIZENS OF PAKISTAN

PREFACE

Articles 169 and 170 of 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's 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 (OGRA) for the financial year 2023-24. The Directorate General Audit, Petroleum and Natural Resources, Lahore, conducted audit during audit year 2024-25 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 **Annex-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's audit report.

Impact Audit, aimed at assessing effects of government initiatives has been made part of this report. Thematic audit on monitoring mechanism for collection of non-tax receipts is also included in the report.

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 the light of discussions during the DAC meetings and written responses of the Divisions / PSEs.

There are certain audit findings which were also reported in the previous years' Audit Reports for the financial years 2018-19 to 2023-24. Recurrence of such irregularities is matter of concern and needs to be addressed.

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

Islamabad
Dated: February , 2025

(Muhammad Ajmal Gondal)
Auditor-General of Pakistan

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ABBREVIATIONS AND ACRONYMS

AGP	Auditor-General of Pakistan	DDO	Drawing and Disbursing Officer
AGPR	Accountant General Pakistan Revenues	DG (LGs)	Director General Liquified Gases
AGM	Annual General Meeting	DoE	Department of Explosives
AY	Audit Year	DP	Draft Para
BBLs	Barrel (of Oil)	D&P	Development and Production
BCF	Billion Cubic Feet	E&P	Exploration & Production
BESOS	Benazir Employees Stock Option Scheme	ECC	Economic Coordination Committee
BNC	Board Nomination Committee	EPCC	Engineering Procurement, Construction and Commissioning
BoD	Board of Directors		
BoM	Board of Management	FG	Federal Government
BTU	British Thermal Unit	EOU	Export Oriented Unit
CAO	Chief Accounts Officer	EOBI	Employees Old Age Benefits Institution
CC&B	Customer Care & Billing	FBR	Federal Board of Revenue
CCI	Council of Common Interests	FCF	Federal Consolidated Fund
CDA	Capital Development Authority	FRR	Final Revenue Requirement
CFO	Chief Financial Officer	FTO	Federal Treasury Officer
CF&AO	Chief Finance & Accounts Officer	FY	Financial Year
CCoE	Cabinet Committee on Energy	GB	Gilgit Baltistan
CEO	Chief Executive Officer	GDS	Gas Development Surcharge
CGA	Controller General of Accounts	GENCO	Generation Company
CMS	Consumer Meter Station	GFR	General Financial Rules
CNG	Compressed Natural Gas	GHPL	Government Holdings Private Ltd.
COSA	Crude Oil Sale Agreement	GIDC	Gas Infrastructure Development Cess
CPPs	Captive Power Plants	GM	General Manager
CSR	Corporate Social Responsibility	GoB	Government of Balochistan
DAC	Departmental Accounts Committee	GoP	Government of Pakistan
DCs	Deputy Commissioners	GSA	Gas Sales Agreement
DCOs	District Coordination Officers	GSP	Geological Survey of Pakistan

GSPA	Gas Sales and Purchase Agreement	MMCFD	Million Cubic Feet per day
GST	General Sales Tax	MPCL	Mari Petroleum Company Ltd.
HDIP	Hydrocarbon Development Institute of Pakistan	MRDL	MCC Resource Development Company Private Ltd.
HR	Human Resources	MoE - PD	Ministry of Energy-Petroleum Division
HSD	High Speed Diesel	MT	Metric Tons
HSE	Health, Safety and Environment	NBP	National Bank of Pakistan
ITB	Instructions to Bidder	NHA	National Highway Authority
IP	Iran Pakistan	NICL	National Insurance Company Ltd
IPPs	Independent Power Producers	NMP	National Mineral Policy
ISGS	Inter State Gas System	NOCs	No Objection Certificates
JV	Joint Venture	OGDCL	Oil and Gas Development Company Ltd.
KIBOR	Karachi Interbank Offer Rate	OGRA	Oil & Gas Regulatory Authority
KMI	Key Monitoring Indicator	OMCs	Oil Marketing Companies
KPD	Kunnar-Passaki Deep	PAC	Public Accounts Committee
KP	Khyber Pakhtunkhwa	PAO	Principal Accounting Officer
KPOGC	Khyber Pakhtunkhwa Oil & Gas Company Ltd.	PARCO	Pak-Arab Refinery Limited
LC	Letter of Credit	PC	Petroleum Concessions
LMKR	LMK Resources Private Ltd.	PCA	Petroleum Concession Agreement
LNG	Liquefied Natural Gas	PD	Petroleum Division
LPS	Late Payment Surcharge	PERAC	Petroleum Refining and Petrochemical Corporation
LPG	Liquefied Petroleum Gas	PFM	Public Financial Management
MCC	Metallurgical Corporation of China	PL	Petroleum Levy
MFDAC	Memorandum for Departmental Accounts Committee	PLL	Pakistan LNG Ltd.
MD	Managing Director	PMDC	Pakistan Mineral Development Corporation
MMBOE	Million Metric Barrel of Oil Equivalent	PNR	Petroleum and Natural Resources
MMBTU	Metric Million British Thermal Unit	PPL	Pakistan Petroleum Ltd.
MMCF	Million Cubic Feet	PPRA	Public Procurement Regulatory Authority

PSO	Pakistan State Oil	SNGPL	Sui Northern Gas Pipelines Ltd.
PWD	Public Works Department	SOEs	State Owned Entities
RLNG	Re-gassified Liquefied Natural Gas	SOPs	Standard Operating Procedures
ROW	Right of Way	S.R.O.	Statutory Regulatory Order
RPC	Royalty Processing Charges	SSGC	Sui Southern Gas Company
SAP	System Application and Product	SWO	Social Welfare Obligation
SDG	Sustainable Development Goal	TAPI	Turkmenistan Afghanistan Pakistan India Pipeline
SECP	Securities and Exchange Commission of Pakistan	TBS	Town Border Stations
SLL	SSGC LPG Ltd.	TCF	Trillion Cubic Feet
SML	Saindak Metal Ltd.	UAE	United Arab Emirates
SMS	Sales Meter Station	UFG	Un-accounted For Gas
SNG	Synthetic Natural Gas	US\$	United States Dollar

EXECUTIVE SUMMARY

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

This Directorate General has a human resource of 76 officers and staff who spent 19,000 man-days on conducting audit. The annual budget for the audit activities amounts to Rs 138.940 million for the financial year 2023-24. This report contains the results of audit inspections and evaluations of the financial performance of entities under the audit jurisdiction of this office for the financial year 2023-24.

a. Scope of Audit

This Directorate General is mandated to conduct audit of receipts and expenditures of Ministry of Energy (Petroleum Division) and 18 Public Sector Enterprises. 149 formations fall under this Ministry and Oil & Gas Regulatory Authority operates under the jurisdiction of Cabinet Division. The total financial outlay of Petroleum Division, PSEs and OGRA was Rs 15,094.685 Billion and Non-Tax Receipts amounted to Rs 1,285.252 Billion, for the financial year 2023-24 (Annex-2).

Audit coverage relating to expenditure for the audit year was 91%, and comprised of 58 formations of the Ministry of Energy (Petroleum Division), 12 Public Sector Enterprises / Institutes, and the Oil and Gas Regulatory Authority under the Cabinet Division, with a total financial outlay of Rs 13,721.765 Billion for the financial year 2023-24.

Audit coverage relating to Non-Tax Receipts for the current audit year was 100%, and included four formations of Ministry of Energy (Petroleum Division) with total Non-Tax Receipts of Rs 1,285.252 Billion for the financial year 2023-24.

Thematic Audit of “Monitoring Mechanism of Collection of Non-Tax Receipts” has also been included in the audit report to identify gaps and remedial measures to address loopholes in the legal framework governing the collection and monitoring of Non-Tax Receipts.

One chapter of Impact Audit on “Provision of Synthetic Natural Gas through installation of LPG Air Mix Plants” has also been included in this report that assesses impact of the stated initiative of the government.

In addition to this Compliance Audit Report, this office also conducted two Financial Attest Audits. Significant paras selected from Special Audit / IS Audit have also been included in the respective chapters.

b. Recoveries at the Instance of Audit

Recoveries amounting to Rs 3,430.906 Billion were pointed out in this audit report. During January to December, 2024 total amount recovered was Rs 107.628 Billion which included recoveries based on previous years’ audit observations.

c. Audit Methodology

The audit exercise for the FY 2023-24 started with audit planning and updating of permanent files. Desk audits and in-house audit planning sessions were held to develop an understanding of the entities and define the core objectives for the subject audit. Accordingly, high risk areas of financial and managerial significance with reference to each entity were identified. Government regulations / BoDs proceedings, and other events related to the audited organizations were used as references. 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. Data analysis, interviews, surveys, and contemporary audit techniques were employed in conducting Thematic and Impact Audit. Additionally, before-and-after methodology was also employed for Impact Audit.

d. Audit Impact

Audit promotes financial transparency, internal controls and efficient project management in auditee formations by improving management’s adherence to competitive procurement processes, transparent recruitments, effective fund utilization and improved service delivery. Following are the key instances of impact that resulted on repeated pointation of Audit:

- OGDCL started the process of winding up of Trust for Benazir Employees Stock Option Scheme (BESOS) and deposited the amount in Federal

consolidated Fund. As a result, an amount of Rs 20.000 Billion was deposited on September 11, 2024. [Para 2.2.4.14 of AR 2023-24 and Para 2.2.4.7 of AR 2024-25]

- The management of SSGC reduced UFG from 18.07% in FY 2022-23 to 13.94% in FY 2023-24 as per DERR dated June 02, 2023. [Para 2.6.6.10 of AR 2019-20, Para 2.6.6.2 of AR 2020-21, Para 2.6.4.2 of AR 2021-22, Para 2.6.4.1 of AR 2023-24 and Para 2.6.4.1 of AR 2024-25]
- The management of PSO implemented ECC's decision and started the recovery of exchange losses of Rs 5.862 Billion for the period from FYs 2016 to 2022. [Para No. 3.1.7.14 of AR 2020-21, Para 2.4.4.6 of AR 2021-22, Para No. 3.1.4.3 of AR 2023-24 and Para 2.4.4.4 of AR 2024-25]
- PSO modified the process of issuance of Corporate Fleet Cards and monitoring of their utilization, mitigating the risk of misuse, thereby impacting Rs 27.400 Billion of Corporate Fleet business. [Para 2.4.4.20 of AR 2024-25]
- Department of Explosives successfully took up the matter with Customs Authorities to ensure that the DoE gets consulted regarding goods falling under the subject of explosives before their clearance. [Para 2.1.4.43 of AR 2024-25]

e. Comments on Internal Controls and Internal Audit Department

Internal controls in any organization comprise policies, procedures, rules, regulations, and monitoring mechanisms which help in preventing fraud and wastage of resources while enhancing value for money, efficiency and transparency in the management processes. Internal controls are an essential part of management's tools for achieving its objectives and goals. A number of internal control weaknesses were observed during audit and communicated to the respective management.

Financial management in Ministry of Energy (Petroleum Division) was deficient owing to the absence of mechanism for assessment / collection of Non-Tax Receipts as well as the recovery of arrears of GDS, GIDC, Petroleum Levy and Royalties. The management relied solely on the information provided by the companies regarding due receipts.

In case of OGDCL, PSO, PPL, SNGPL, SSGC and PMDC, financial and internal controls lapses were noticed especially in procurement process. Recurrent violations of PPRA Rules leading to wastage of company's resources were observed. Moreover, inefficient project management was one of the weakest areas in PSEs. For instance, in case of OGDCL the procurement process could not be initiated on time resulting in decline in production. Gas distribution companies failed to control UFG. Furthermore, OGRA in performing its regulatory functions could not take timely decisions that heavily cost the gas companies.

It was noticed that audited annual accounts of eight Public Sector Enterprises / Authorities (seven pertaining to the financial year 2023-24 and one for the financial years 2022-23 and 2023-24) were not finalized within stipulated time and provided to the Audit till finalization of this report (Annex-3).

f. Key Audit Findings

Audit findings in this report include observations related to short realization of Non-Tax Receipts due to ineffective assessment and monitoring mechanism, and delays in grant, renewal and extension of expired leases and licenses. Due to ineffective corporate governance by Petroleum Division, there was also delay in reconstitution of BoDs, non-conducting of performance evaluation of BoD members and non-appointment of Directors in subsidiaries of PSEs.

Major issues of PSEs included weak financial management leading to accumulation of receivables and undue retention of BESOS funds. Instances of violation of PPRA rules were also observed. PSEs also failed to complete development projects for exploration and production of hydrocarbon and gas development schemes. OGRA could not ensure maintenance of minimum mandatory stock by OMCs for uninterrupted supply of petroleum products.

Key instances of such lapses are listed below:

- i. DG (PC) and SNGPL did not provide complete record to the Audit which hampered the audit's ability to bring out a more comprehensive analysis of sectoral issues for sharing with the Parliament;¹

¹ Paras 2.1.4.1 & 2.5.4.1

- ii. Audit pointed out huge receivables due to the outstanding issue of inter-corporate circular debt - Rs 1,228.105 Billion;²
- iii. PPL failed to complete the two gas production projects despite lapse of more than ten years of gas discoveries resulting in loss of potential revenue and cost escalation - Rs 85,589.485 Billion;³
- iv. Petroleum Division failed to realize Non-Tax Receipts within the stipulated time - Rs 65.781 Billion;⁴
- v. PPL did not deposit Lease Extension Bonus despite collection from the buyers - Rs 45.073 Billion;⁵
- vi. Un-authorised retention of BESOS Funds by OGDCL, PPL, PSO and SNGPL - Rs 44.261 Billion;⁶
- vii. Loss of revenue to Saindak Metals Limited (SML) because of unauthorized change in method of sampling of gold by Lessee without consent of company - Rs 27.400 Billion;⁷
- viii. SNGPL failed to complete gas development schemes / jobs within the stipulated time - Rs 15.745 Billion;⁸
- ix. Loss of revenue to OGDCL and PPL due to forced curtailment of gas owing to line pack issue of SNGPL - Rs 14.740 Billion;⁹
- x. OGDCL, PPL, PSO, SSGC and SLL violated PPRA Rules during procurement of goods and services – Rs 8,924.369 million;¹⁰
- xi. PPL failed to finalize Unitization Agreement with UEPL for three fields having reservoir migration of hydrocarbon, resulting in loss of Rs 9,403.290 million;¹¹

² Paras 2.2.4.8, 2.3.4.2, 2.4.4.1 & 2.6.4.23

³ Para 2.3.4.9

⁴ Para 2.1.4.2

⁵ Para 2.3.4.3

⁶ Paras 2.2.4.7, 2.3.4.5, 2.4.4.5 & 2.5.4.4

⁷ Para 2.7.4.4.5

⁸ Para 2.5.4.26

⁹ Paras 2.2.4.1 & 2.3.4.15

¹⁰ Paras 2.2.4.16, 2.2.4.17, 2.2.4.18, 2.3.4.19, 2.3.4.20, 2.3.4.21, 2.4.4.13, 2.5.4.20, 2.6.4.26, 2.6.4.28, 2.6.4.29 & 2.6.4.31

¹¹ Para 2.3.4.12

- xii. Non-deposit of unclaimed dividend by PPL, PSO, SNGPL and SSGC in government treasury - Rs 1,988.462 million;¹²
- xiii. OGRA failed to take action against Oil Marketing Companies (OMCs) operating more outlets than their storage capacity and non-maintenance of stock levels of Motor Spirit (MS) and High-Speed Diesel - Rs 770.000 million;¹³
- xiv. OGRA failed to protect consumers' rights against overcharging, less filling and sale of sub-standard POL products - Rs 152.572 million;¹⁴
- xv. OGDCL did not observe National Environmental Quality Standards regarding submission of Environmental Monitoring Reports to relevant agencies;¹⁵
- xvi. PPL did not fulfil conditions of ISO Certification 14001:2015 & 45001:2018 regarding conducting surveillance audit of seven fields and HSE internal audit of twenty-two exploration sites;¹⁶

Thematic Audit

- xvii. Thematic Audit showed that assessment and collection mechanism of Non-Tax Receipts was deficient because Petroleum Division did not have any system to assess due amount or to countercheck the amount deposited by the companies.
- xviii. DG (PC) did not reconcile production of hydrocarbons with E&P companies to verify Royalty amount and DG (Oil) did not have mechanism to reconcile production and import of Petroleum Products in the country with quantity on which Petroleum Levy was paid;
- xix. Similarly, Petroleum Division did not take notice of non-payment of huge amount of GDS by E&P companies which were selling natural gas to power companies. They were receiving sale proceeds from buyers but withholding payments of GDS of Rs 77,266.000 million including outstanding amount since 2019. Moreover, gas companies were selling

¹² Paras 2.3.4.7, 2.4.4.2, 2.5.4.7 & 2.6.4.40

¹³ Para 3.1.4.13

¹⁴ Para 3.1.4.19

¹⁵ Para 2.2.4.33

¹⁶ Para 2.3.4.27

natural gas to IPPs but did not deposit GDS on monthly basis and adjusted the due amount of GDS against shortfall in revenue requirement determined by OGRA at year end; and

Impact Audit

- xx. Provision of SNG through installation of LPG Air Mix Plants in Gilgit city and Kot Ghulam Muhammad (Sindh) had positive impact on consumers who were provided the SNG. Gas companies, however, could establish gas distribution network for only 2,714 consumers against target of 17,200 consumers. Resultantly, the intervention succeeded in providing clean, economical and readily available alternate fuel to only 14% of targeted households.

g. Recommendations

- i. Petroleum Division may direct DG (PC) and SNGPL to provide the requisite auditable record;
- ii. Joint strategy be devised by Petroleum Division in coordination with Power Division for a time bound action plan for minimizing receivables;
- iii. Petroleum Division needs to investigate the reasons for the delay in the completion of gas production projects and the associated cost escalation besides ensuring the completion of the project;
- iv. Petroleum Division needs to take steps for early recovery of Non-Tax Receipts;
- v. Petroleum Division is advised to recover the Lease Extension Bonus from PPL without further delay;
- vi. Petroleum Division is advised to direct the PSEs to deposit the BESOS Funds into the Federal Consolidated Fund;
- vii. Petroleum Division needs to investigate the unauthorized change in method of sampling of gold by Lessee to safeguard the government revenue;
- viii. Petroleum Division is required to direct SNGPL to complete gas development projects;
- ix. OGDCL and PPL are required to take up matter with the relevant forum to resolve the issue of curtailment in indigenous gas production;

- x. The management of PSEs is required to take corrective action with regard to compliance of PPRA Rules during procurement of goods and services;
- xi. Petroleum Division ought to finalize the issue of Unitization Agreement between PPL and UEPL;
- xii. PPL, PSO, SNGPL and SSGC are required to take up the matter with the Finance Division and SECP to ensure the deposit of unclaimed dividend in the Federal Government Account;
- xiii. OGRA needs to strengthen its monitoring mechanism to ensure compliance with rules and license conditions by OMCs;
- xiv. OGRA is required to take action against overcharging, less filling and sale of sub-standard POL products;
- xv. Petroleum Division needs to investigate violation of the National Environmental Quality Standards and take remedial measures to ensure compliance in true letter and spirit;
- xvi. PPL is required to take steps for fulfilling conditions of ISO certification and ensure compliance of HSE internal audit of exploration sites;
- xvii. Petroleum Division needs to strengthen assessment and collection mechanism to assess due amount or to countercheck the amount deposited by the companies.
- xviii. A mechanism needs to be devised for reconciling production of hydrocarbons and import of Petroleum Products with E&P companies to verify deposited amount of Royalty and Petroleum Levy;
- xix. Petroleum Division is required to develop a mechanism for checking actual sales proceeds collected from buyer and ensure deposit of GDS on proportionate basis; and
- xx. Petroleum Division is required to advise gas companies to complete the planned distribution network for supply of SNG to target consumers for providing clean, affordable, and sustainable energy.

Sectoral Analysis

The Petroleum sector holds a preeminent position in the economy of Pakistan due to its significant contribution to the national economy, generating substantial revenue amounting to Rs 1,285.852 Billion¹⁷ and attracting foreign investment of US\$ 303.600 million¹⁸. The Petroleum Division also plays a pivotal role in fulfilling the energy needs of the country by providing fuel for power generation and industrial use from indigenous sources, as well as through imports of crude oil, petroleum products and liquefied gases, which constitutes almost 30% of total import bill¹⁹.

Under the Rules of Business 1973, the Ministry of Energy (Petroleum Division) primarily deals with policy formulation, legislation, planning regarding exploration, development, production, import & export of petroleum products and collection of Non-Tax Receipts. The Petroleum Division manages Exploration & Production Policies and Rules and overseas matters related to the licensing of E&P companies and permissions for third-party sales to E&P companies directly from the fields to the bulk consumers.

Performance of the Petroleum Sector

A review of the achievement of targets for the financial years 2022-23 and 2023-24 is tabulated below:

Item	Unit	2022-23			2023-24		
		Target	Actual	Achievement in %	Target	Actual	Achievement in %
Domestic Production							
Crude Oil	M. B	27.76	25.60	92	22.607	20.112	89
Natural Gas	TCF	1.40	1.19	85	1.30	1.141	87
LPG	M.T	956.30	741.94	78	780	750	96
No. of wells drilled							
Exploratory	Nos.	24	12	50	21	11	52
Development	Nos.	41	28	68	35	30	86
Gas Consumers Added							
SNGPL	Nos.	403,050	5,982	01	3,050	26,735	
SSGC	Nos.	134,276	76,349	57	133,976	2,963	

¹⁷ Petroleum Division data relating to receipts

¹⁸ Pakistan Investment Board Data on their official website

¹⁹ Group-wise imports, MoC data for the FY 2023-24

Gas Network/ Transmission Extension by Gas Companies							
SNGPL	Kms	8,185	838	10	1,080	3,423	317
SSGC	Kms	1,600	768	48	1,446	350	24

(Source: Annual Plan 2022-23 and 2023-24 by Planning Commission)

Exploration and Production Business Supply Chain Management

E&P business supply chain starts with auction of exploration blocks to E&P companies by DG PC. Pursuant to award of exploration blocks, DG PC executes Petroleum Concession Agreements (PCA) with E&P companies and grants Exploration Licenses for start of seismic surveys and drilling of wells. In case of success, announcement of discoveries is made and after appraisal of discoveries, declaration of commerciality is announced. Keeping in view, the economic viability of the discovery, a field development plan is submitted to DG (PC). Upon approval of field development plan and grant of lease, development projects are started for construction of site, installation of wellhead and processing & purification plants and pipeline network for supply of oil and gas.

With the passage of time the E&P business is losing pace and exploratory efforts are on decline due to ineffective policy making. Exploration blocks are being auctioned / awarded without proper spadework and prior security clearance. Work on various blocks could not be initiated due to law and order situation especially in Balochistan and KP provinces. Private sector participation in E&P business is also decreasing and foreign E&P companies are reducing their working interest in Pakistan. Even the E&P companies working under public sector are shifting their focus from E&P business to mining sector without seeking any policy directives from the Government.

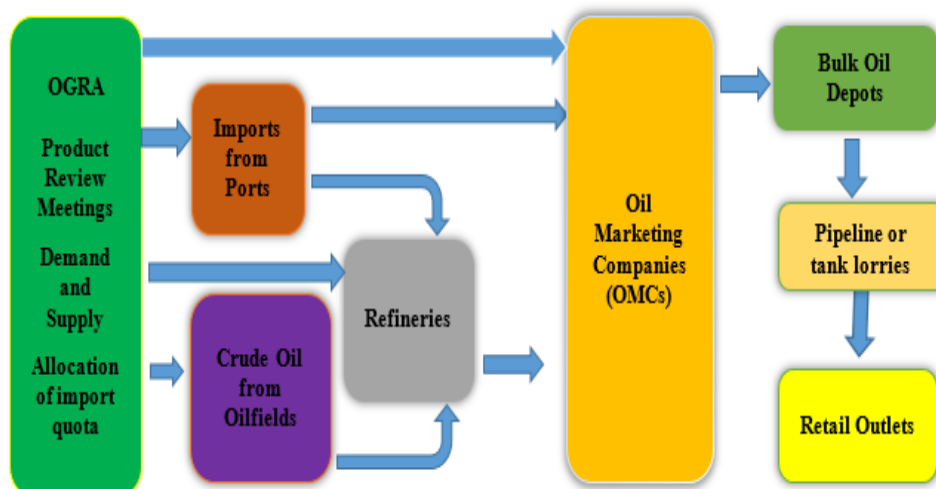
Production of Oil and Gas

At a time when the country is looking for ways to reduce its import bill, increased production of indigenous oil and gas could alleviate pressure on the expensive import bill. Domestic production of oil for FY 2023-24 stood at 20.112 million barrels against a target of 22.607 million barrels, reflecting 89% achievement and a shortfall of 2.495 million barrels. According to the Petroleum Division, out of total of 1304.090 million barrels of oil discovered, 1061.150 million barrels had already been extracted, leaving a balance of 243.930 million barrels of oil reserves in Pakistan.

Similarly, indigenous gas production during FY 2023-24 was 1.141 TCF (3,125 MMCFD) against a target of 1.300 TCF (3562 MMCFD), resulting in a shortfall of 0.159 TCF (437 MMCFD). The production of raw gas at 3,125 MMCFD was further reduced to 2,812 MMCFD due to flaring of gas, shrinkage for removal of H₂S, and for production of LPG in addition to in-house consumption for running the Gas Processing / Purification Plants. By June, 2024, Pakistan had discovered 64.488 TCF of natural gas reserves of which approximately 46.016 TCF had already been consumed. The rapidly depleting reserves and the slow pace of new discoveries highlight the pressing need to increase efforts for the exploration of new sources.

Oil Supply Chain Management

The oil supply chain begins with the production or supply of crude oil by exploration and production (E&P) companies or the importation of crude oil by refineries. This process includes the processing of crude oil for the production of petroleum products, the supply of locally produced petroleum products to oil marketing companies (OMCs), or the import of petroleum products by OMCs. The Oil and Gas Regulatory Authority (OGRA) is the regulator of the oil sector and is responsible for oil supply chain management. OGRA issues licenses to nearly all stakeholders in the oil supply chain, except for retail outlets. To assess the demand and supply position of crude oil, petroleum products, and their stock levels, OGRA convenes a product review meeting on a monthly basis to oversee the overall oil supply chain. Oil supply chain management is presented below:



The oil supply chain consists of a mix of public and private sector participation and entrepreneurship. Out of six refineries, only PARCO and PRL have substantial government shareholdings, while the remaining refineries are operated by the private sector. Additionally, more than 50% of the market share of petroleum products is held by private sector oil marketing companies.

According to the Oil Report of Pakistan 2022-23 issued by OCAC, the projected demand for petroleum products for FY 2023-24 was 17,588,916 metric tons (129.102 million barrels). Domestic production of petroleum products was 7,234,715 metric tons (53.102 million barrels), meeting 41% of the total demand for petroleum products. The remaining demand was met through the import of 10,354,201 metric tons (75.999 million barrels).

Natural Gas Supply Chain Management

The natural Gas Supply Chain starts with the production or supply of natural gas by E&P companies to gas utility companies, or through the import of LNG by PSO or PLL. This process includes the regasification of LNG in Floating Storage and Regasification Units (FSRUs), the transportation of natural gas or RLNG through pipelines to the transmission / distribution network, and the supply of gas to retail consumers, including domestic, commercial, industrial, general industry, and Captive Power Plants (CPPs). The country has a vast network of 13,414 kilometres of transmission and 198,719 kilometres of distribution gas pipelines providing natural gas to consumers. The natural gas supply chain is predominantly operated by public sector gas utility companies, with minimal private sector participation or entrepreneurship.

The LNG / RLNG supply chain begins with the import of LNG by PSO or PLL through government-to-government agreements with Qatar Gas, Qatar Petroleum, and ENI for nine cargoes per month (900 MMCFD). Additionally, two private sector companies, namely Engro Terminal Limited (EETL) and Pakistan Gasport Consortium Limited (PGPCL), are engaged, each with regasification



capacities of approximately 690 and 750 MMCFD, respectively. These terminals, with a combined regasification capacity of 1.200 BCFD, have been hired by the Government of Pakistan through SSGC and PLL. After the regasification of LNG, RLNG is injected into the gas utility companies' transmission / distribution network for sale to bulk and retail consumers.

According to the State of the Regulated Petroleum Industry Report 2022-23, OGRA reported a projected demand of 4,303 MMCFD and supplies of 3,986 MMCFD, indicating a need to address the imbalance in demand and supply. Demand and supply position is given below:

Total Country Demand and Supplies (MMCFD)

Name of Company	FY 2022-23	FY 2023-24	% age increase
SNGPL	1544	1795	
SSGC	882	865	
Independent System	1211	1343	
UFG, Internal Consumption	300	300	
Total Demand	3937	4303	9.29%
Total Committed Supplies (MMCFD)			
SNGPL	988	1101	
SSGC	786	594	
MPCL	651	787	
PPL	153	180	
OGDCL	360	424	
Independent System	1211	1343	
Total Supplies (Indigenous)	2938	3086	5.03%
Shortfall without LNG	999	1217	
LNG Supply	864	900	
Total Supply	3802	3986	4.8%
Shortfall	135	317	135%

(Source: State of the Regulated Petroleum Industry Report 2022-23 of OGRA)

The rapid depletion of existing gas reserves is one of the main reasons for the increasing gap between the demand and supply of natural gas. Domestic production of gas during FY 2023-24 was 1.070 TCF (2,812 MMCFD) against a demand of 1.570 TCF (4,303 MMCFD). This results in a supply-demand gap of 0.50 TCF per annum (1,491 MMCFD). The total supply of natural gas remained at 3,676 MMCFD, and the shortfall in domestic production further widened the

supply-demand gap from 1,217 MMCFD to 1,491 MMCFD. To address this supply-demand gap, 0.315 TCF (864 MMCFD) of LNG was imported, constituting 23% of the total supply of natural gas in the system. The net shortfall of 0.288 TCF (627 MMCFD) represents 16% of the total demand.

Domestic consumers mainly face acute shortages during the winter months due to increased demand. Gas companies are unable to increase gas supply owing to the non-availability of indigenous gas and exorbitant LNG prices in the international market, compounded by geopolitical crises.

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 the provinces. The Federal Government, being responsible for the formulation of national policies and plans, promulgated the National Mineral Policy (NMP) 2013, which necessitated the revamping of the mineral sector and the Pakistan Mineral Development Corporation (PMDC), the only federal entity involved in the exploration, mining, and marketing of minerals. However, the NMP 2013 was not implemented by the Directorate General (Mineral) of the Petroleum Division, resulting in the inability to initiate the revamping of PMDC. The production of main minerals, i.e., salt and coal, was recorded at 3,212,400 M. Tons and 20,754,000 M. Tons respectively for the FY 2023-24²⁰.

PPL has also undertaken an un-incorporated joint venture (namely M/s Bolan Mining Enterprises) with Government of Balochistan (GoB) in 1974. Both PPL and GoB both have equal working interest of 50% each. Main objective of the JV was extraction of Barite, Iron and other mineral in Khuzdar and Naukandi, District Chagai, Balochistan. Recently, the BME has ventured a new project namely BLZ project for extraction of Barite, Lead and Zinc and the JV has also three mining leases for extraction of iron ore. BME has production capacity of 300,000 M. Tons of Barite annually and daily average production is around 1,500 to 1,800 tons of barite mined and 200 tons ground. BME produced 256,614 M. Tons and 184,257 M. Tons of barite and iron during the FYs 2022-23 and 2023-24.

²⁰ Pakistan Economic Survey 2023-24

Reko Diq contains one of the world's largest undeveloped copper-gold deposits, and the mining field has a life span of over 40 years. To boost the mineral sector and expedite the extraction of gold and copper reserves, the Federal Government took the initiative for the reconstitution of the Reko Diq project. Currently, a project feasibility study was in progress. Another mineral sector project is the Saindak Copper Gold Project, which has been in operation since 2002 for the extraction of copper-gold deposits. The agreement for this project expired in 2012 and was extended till 2017. A new agreement was signed in 2017 for five years, which was also extended in 2022 for an additional fifteen years.

Corporate Governance

The Petroleum Division has administrative control over the largest State-Owned Entities (SOEs) such as OGDCL, PPL, PSO, SNGPL, SSGC, GHPL, ISGS, PLL, PMDC, and SML. Under the Corporate Governance Rules, 2013 and the SOE Act, 2023, the Petroleum Division is responsible for presenting summaries to the Federal Government for the nomination of independent directors (on the recommendation of the Board Nomination Committee) and ex-officio directors of the Board of Directors / Board of Management to represent government shareholdings in these SOEs. The Petroleum Division also seeks permission for the nominations / recommendations, including the pay packages of Managing Directors (MDs) and Chief Executive Officers (CEOs) of the SOEs.

The Petroleum Division has not established any policy or guidelines for the participation of directors representing government shareholding in the aforementioned SOEs. Additionally, there is no mechanism for sharing agenda items for Board meetings or providing briefings on decisions taken regarding various agenda items, particularly those related to government policies, revenues, and the overall structure of service delivery or government priorities. Furthermore, the Federal Government has not implemented Rule 8 of the Corporate Governance Rules, 2013 regarding the execution of performance contracts with members of the BoD and conducting performance evaluations since 2017.

The Petroleum Division has also been unable to implement the provisions of the SOE Act, 2023 regarding the appointment of members of the BoD for

subsidiaries of PSO, PPL, and SSGC through nominations by the Board Nomination Committee and final approval from the Federal Government²¹. The Petroleum Division has appointed excess ex-officio members on the boards of SOEs, which violates the SOE Policy 2023²², and the Board Nomination Committee recommended the number of ex-officio members for the boards instead of recommending specific ex-officio positions²³.

Moreover, exploration and production (E&P) companies, namely OGDCL and PPL, have not been implementing the SOE Act, 2023, and the governance and operational requirements introduced in the Act have not been complied with. This is despite the non-implementation of the Pakistan Sovereign Wealth Fund Act, 2023, as the assets placed under Schedule I of the Act have not been transferred to the Fund.

Issues in Petroleum Sector

The Petroleum Division administers the petroleum sector through its Directorates General, each responsible for Petroleum Concessions, Oil, Gas, and Minerals. However, the Division has been unable to provide sufficient human resources in its subordinate directorates, relying instead on borrowed personnel from Public Sector Enterprises (PSEs) working under its administrative control. Furthermore, the Division has failed to impart proper training and skills to the limited human resources available, despite having ample training funds. These HR constraints have hampered the performance of the Directorates General within the Petroleum Division, which is evident from the issues and lapses delineated in this report.

Expired leases of E&P companies have neither been renewed nor revoked despite considerable time lapsing, leading to the operation of producing fields without valid leases²⁴. E&P activities have remained slow, and production targets regarding the country's energy needs set by the Federal Government have not been met. The Directorate General (PC) has extended undue benefits to E&P companies by granting marginal pricing benefit²⁵. Additionally, the DG (PC) has

²¹ Para 2.1.4.25

²² Para 2.1.4.24

²³ Para 2.1.4.24

²⁴ DP No. 3183

²⁵ Para 2.1.4.5

failed to complete the process of taking over the plants and machinery from expired leases and depositing the sale proceeds in the national exchequer²⁶.

OGDCL and PPL, being the major E&P companies in the country, have not achieved their own operational targets due to weak oversight by their Boards of Directors and a defective performance evaluation system²⁷. Both companies failed to monetize and start production from 23 discoveries despite delays of up to nine years²⁸. Multiple development and compression projects have been substantially delayed, leading to a decline in production and loss of incremental production and revenue²⁹. GENCO-II has failed to off-take gas supplies from the Kandhkot gas field of PPL as per the agreement, which has substantially affected the company's production and revenue³⁰.

Furthermore, a third-party consultant reported that there was reservoir communication between PPL's Adam West and UEPL's Salamat fields. UEPL extracted more gas from the interconnected fields, depriving PPL of 130 BCF of gas, valued at approximately US\$ 340 million. The issue of reservoir communication also exists in three other straddled fields. Nevertheless, the DG (PC) and PPL have been unable to resolve the dispute, resulting in sustained revenue losses³¹. Moreover, the reduced purchase of RLNG by the power sector has put additional pressure on the line pack of SNGPL, leading to forced curtailment of production from local gas fields. This has resulted in a revenue loss of US\$ 46.48 million, as reported by E&P companies.³²

The DG Gas has failed to finalize the process of amendments to the GDS Ordinance, 1967, by placing the matter before the Federal Government and the Legislature in order to remove the lacunae related to the due date for the deposit of GDS under the Natural Gas (Development Surcharge) Rules, 1967. This lapse has been causing a blockage of government revenue since 2015. E&P companies selling natural gas directly to power producers have been receiving the entire amount from sales invoices, excluding GDS. For instance, PPL sold natural gas

²⁶ Para 2.1.4.6

²⁷ Paras 2.2.4.19 & 2.3.4.8

²⁸ Para 2.3.4.13 & DP No. 3053

²⁹ Paras 2.2.4.2, 2.2.4.27 & 2.3.4.9

³⁰ Para 2.3.4.11

³¹ Para 2.3.4.12

³² Paras 2.2.4.1 & 2.3.4.15

to GENCO-II and received sales proceeds but PPL did not make payment of GDS of Rs 77,266 million including outstanding dues pertaining to 2019 to 2024, claiming that GENCO-II had not been making GDS payments, although all other dues were paid³³. Surplus gas from the Kandhkot gas field could not be allocated to third parties to inject almost 50 MMCFD of gas into the system, impacting PPL's revenue generation³⁴.

Furthermore, the Petroleum Division / DG Gas has been unable to implement the OGRA (Amendment) Act, 2021, to incorporate RLNG into the OGRA Ordinance, 2002, for pricing purposes and to remove the duality of regime. Gas sector-related issues have persisted despite repeated highlighting of these problems, such as gas shortages due to the increasing demand and supply gap, and unabated UFG losses, particularly for SSGC, which are around 13.94%³⁵. Circular debt and litigation are causing non-recovery of government revenue and gas charges³⁶.

SNGPL diverted RLNG to the domestic sector in the summer months in violation of Cabinet decisions and claimed the differential amount from the Federal Government³⁷. Gas companies have overestimated the costs of government-sponsored gas development schemes, resulting in the blockage of funds, they did not surrender savings to the government over the years³⁸. Additionally, gas companies have failed to complete development projects for the provision of natural gas to consumers, despite delays of up to eight years³⁹. SNGPL did not comply with the standards notified by OGRA regarding LPG cylinders, storing between 100 to 1,743 filled cylinders daily in the Lahore Region, against the allowed limit of 91 kg at one location⁴⁰.

The Department of Explosives is constrained to approach provincial and district authorities to take any action against its licensees for oversight and to initiate any penal action. Manufacturers of explosives have violated the terms and conditions of their licenses by producing quantities exceeding those

³³ Para 2.3.4.1

³⁴ Para 2.3.4.11

³⁵ Para 2.6.4.1

³⁶ Paras 2.1.4.2, 2.5.4.2 & 2.6.4.7

³⁷ DP No. 3161

³⁸ Para 2.5.4.25

³⁹ Para 2.5.4.26

⁴⁰ Para 2.5.4.33

permitted⁴¹. The functions and regulation of explosives have been devolved to the provinces, and the law governing the regime has not been modified by the Federal Government.

A mineral sector project namely Saindak Copper Gold Project operated by M/s SML and MCC Resources Development Company Ltd (MRDL) could not be executed properly. MCC Resources Development Company Ltd (MRDL) was bound to use generally accepted international best practices for valuation of products. However, the MRDL changed the sampling and chemical analysis technique in contravention of the lease agreement. This change has resulted in decrease of gold content by 44% causing substantial potential revenue loss to GoP of Rs 27.4 Billion⁴².

OGRA remained unable to finalize the RLNG prices which were being notified on provisional basis since 2015⁴³. The Regulator could not address the foregoing issues of Oil Sector despite lapse of considerable time. LPG Policy was issued in 2016 and till now OGRA failed to comply with conditions of the Policy⁴⁴. OMCs failed to develop / maintain minimum mandatory storage capacity & stock and expanded retail network irregularly without development of commensurate storage⁴⁵. Further, retail outlets of OMCs are involved in sale of substandard / smuggled petroleum products, overcharging and less filling of petroleum products⁴⁶. Sub-standard / non-compliant tank lorries of Oil Marketing Companies and LPG Marketing Companies were in operation since long posing serious risks to human lives and properties⁴⁷. Moreover, ENAR refining facility was carrying out regulated activity without obtaining license from OGRA⁴⁸. Furthermore, E&P companies were selling flare gas to CNG stations without obtaining license from OGRA⁴⁹.

⁴¹ Paras 2.1.4.43, DP Nos. 2970 & 2971

⁴² Para 2.7.4.4.5

⁴³ Para 3.1.4.10

⁴⁴ Paras 3.1.4.17 & 3.1.4.20

⁴⁵ Paras 3.1.4.11, 3.1.4.13 & 3.1.4.21

⁴⁶ Para 3.1.4.19

⁴⁷ Para 2.4.4.22

⁴⁸ Paras 2.4.4.11, 3.1.4.9 & DP No. 3176

⁴⁹ Para 3.1.4.15

Chapter-1

Public Financial Management

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

Significant paras framed during Financial Attest Audit of Ministry of Energy (Petroleum Division) and Geological Survey of Pakistan for the FY 2023-24 are as under:

1.1.1 Significant deviation between Budget Estimates submitted by Petroleum Division and incorporated by Finance Division

According to Para 7(1)(k) of Financial Management and Powers of Principal Accounting Officers Regulations, 2021, “Principal Accounting Officer shall be responsible, for budget executions as per 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”.

During financial attest audit of receipts of DGs (Gas and LGs) for the FY 2023-24, it was observed that the budget estimates of Non-Tax Receipts incorporated by Finance Division in the annual budget statement were significantly enhanced from the estimates provided by Petroleum Division as detailed below:

(Rs in million)

Heads of Accounts	Budget Estimates submitted by PD	Budget Estimates incorporated by Finance Division	Deviation	%age of Deviation (FD – PD)	Revised Estimates	Actual Achievement
C03902-Development Surcharge on Gas	14,000	40,000	26,000	285% (3 times enhanced)	27,169	30,509
C03916-Gas Infrastructure Development Cess	2,400	40,000	37,600	1666% (16 times enhanced)	2,500	2,889
C03917-Petroleum Levy on LPG	3,455	12,000	8,545	347% (3 times enhanced)	3,516	3,466

Audit observed that actual collections remained close to the estimates provided by the Petroleum Division and later on the Finance Division had to issue revised estimates.

Audit is of the view that weak financial planning resulted in exaggerated budget estimates of receipt targets by Finance Division ignoring the budget estimates submitted by the PAO. Further, current and development expenditure at Federal Government level was planned on the basis of receipts and a significant deviation in receipts from targets impacted the funds availability for meeting the expenditure.

The matter was reported to the management in September, 2024 and it was replied that the Petroleum Division submitted budget estimates on the basis of actual collection and forecast / trend of collection but the Finance Division placed their own estimates in Federal Budget documents.

The DAC in its meeting held on October 17, 2024 directed the PAO to take up the matter of unrealistic targets with the Finance Division and submit the report to Audit. DAC also directed the management of DG (Gas) to pursue the case regarding amendments in GDS and GIDC rules vigorously.

Audit recommends that targets for collection of Non-Tax Receipts should be set by Finance Division based on estimates submitted by PAO in the light of previous collections with justification of variance, relevant enactments, regulations, rules and instructions. This will result in realization of economic forecasts and projections as well as achievement of goals and targets committed with reference to objective based budgeting.

[Para No. 03 DG (Gas) & 12 DG (LGs)]

1.1.2 Misclassification of receipts - Rs 79.373 million

According to Chart of Accounts issued by CGA, receipts on account of Royalty on Crude Oil are classified under C03905, receipts on account of Royalty on Natural Gas are classified under C03906, and receipts under the Unclaimed Deposits are classified under the head C03801. Further, CGA office vide Correction Slip No.624 dated 27.09.2023 opened/allocated a new head of account “C0380I-License/Lease Rent Receipts” in Chart of Accounts.

During financial attest audit of receipts of DG (PC) for the FY 2023-24, it was observed that receipts under following heads of accounts were misclassified. This resulted in misclassification of Rs 79.373 million as detailed below:

(Rs in million)

Sr. No.	Royalty Register Challan No.	Correct Head of Account as per Challan	Booked by FTO in incorrect head of Accounts	Amount
1	910	C03905 - Royalty on Crude Oil	C03906 - Royalty on Natural Gas	15.907
2	960			18.444
3	1255			0.619
4	1042	C03906 - Royalty on Natural Gas	C03905 - Royalty on Crude Oil	0.110
5	15 Challans	C0380I - License / Lease Rent Receipts	C03801 - Unclaimed Deposits	44.293
Total				79.373

Audit is of the view that weak internal controls resulted in misclassification of receipts of Rs 79.373 million out of which Rs 44.293 million was due to opening of ambiguous head of account C0380I (readable as C03801) which impaired the financial statements and submission of incorrect figures of receipts to Finance Division.

The matter was reported to the management in September, 2024. DG (PC) in its reply agreed with the audit regarding misclassification due to opening of ambiguous head of account C0380I. Further, accounting treatment for Royalty heads was identical, as the funds for oil and gas were allocated to the respective provinces. Audit contended that misclassification was clear non-compliance of Chart of Accounts.

The DAC in its meeting held on October 18, 2024 directed the DG (PC) to take up the case for opening of clear / un-ambiguous head of account for License / Lease Rent Receipts with Finance Division. DAC further directed to get the regularization from the competent authority and take up matter with the accounts office for disclosure in the accounts. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter for corrective measures.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2023-24, 2021-22, 2020-21 and 2019-20 vide para numbers 1.1.2, 1.1.2 & 1.1.3,

1.2.3 and 1.2.4 having financial impact of Rs 3,440.899 million, Rs 2,186.648 million & Rs 753.768 million, Rs 3,962.621 million and Rs 5.908 million respectively. Recurrence of same irregularity is a matter of serious concern.

[ML Para Nos. 1.2 & 1.6]

1.1.3 Non-availability of challans relating to receipts administered by DG (PC) - Rs 15,964.971 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 of DG (PC) for the FY 2023-24, it was observed from SAP data (challan-wise) provided by AGPR, Islamabad that 131 challans relating to “Royalty on Crude Oil” amounting to Rs 6,218.111 million, 199 challans relating to “Royalty on Natural Gas” amounting to Rs 9,592.413 million and 34 challans relating to “License/Lease Rent Receipts” amounting to Rs 153.447 million were not available with DG (PC). In the absence of challans, it was not possible to conduct meaningful reconciliation with AGPR. Audit also observed that monthly reconciliation could not be done with AGPR on regular basis.

Audit is of the view that weak internal controls resulted in weak monitoring of receipts.

The matter was reported to the management in September, 2024. DG (PC) in its reply stated that companies had provided the challans and the same were updated in the record and had been reported/reconciled. Audit contended that the challans and updated registers were not provided for verification.

The DAC in its meeting held on October 18, 2024 directed the management to share the complete challans and Royalty / Rent register with the audit within two (02) weeks. No further progress was reported till finalization of the report.

Audit recommends to ensure strengthening of internal controls for availability of all challans relating to receipts administered by DG (PC) so that the reconciliation with AGPR may be done properly.

Note: The issue was reported earlier also in the Audit Reports for Audit Year 2021-22 vide para number 1.1.1 having financial impact of Rs 8,979.803 million. Recurrence of same irregularity is a matter of serious concern.

[ML Para No. 1.3]

1.1.4 Use of incorrect head of account for receipts and refund

According to Chart of Accounts, under element “C-Non Tax Revenue” receipts under the Mines - Oilfields and Mineral Development Act are classified under the head C03808 and receipts relating to Petroleum Levy are classified under the head C03901.

During financial attest audit of receipts of DGs (PC and Oil) for the FY 2023-24, it was observed that receipts under 15% wellhead value was being deposited under the irrelevant head of account. An amount of Rs 9,270.353 million related to this receipt was deposited in C03808 which was meant for Receipts under the Mines-Oilfield and Mineral Development Act. It was also observed that no head of account was available for distribution of shares to provinces relating to 15% wellhead value. This created issues in monitoring and reconciliation with accounting record. Further, an amount of Rs 32.622 million was refunded on account of Petroleum Levy which was debited to the head of account C03901 opened for receipts of Petroleum Levy. Audit observed that in the presence of correction entries, adjustments, and transfer entries which were also debited to the same head C03901-Petroleum Levy, it was not possible to bifurcate the refund figures and adjustment/correction figures.

Audit is of the view that non-opening of separate head of accounts for 15% additional wellhead value, distribution of shares to provinces and refund of Petroleum Levy creates issues in reconciliation and monitoring.

The matter was reported to the management in September, 2024. DG (PC) in its reply stated that audit observation had been noted for compliance. DG (Oil) stated that matter had been forwarded to FBR to provide views/comments.

The DAC in its meeting held on October 18, 2024 directed the management to take up the matter with Finance Division for opening of new heads of accounts. No further progress was reported till finalization of the report.

Audit recommends to open new heads of accounts for proper reconciliation and ensure proper distribution of shares to Provinces.

[ML Para Nos. 1.5 & 1.8]

1.1.5 Violation of procedure of Asaan Assignment Account

According to Para (iv) of general instructions of Asaan Assignment Account Procedure (Local Currency), 2020, “the officers of BS-17 or above on payroll of user organization concerned shall be nominated by the PAO as signatories. A signatory on current / acting charge of BS-17 or equivalent may operate the account till he / she holds current charge of BS-17 and shall no longer operate the account on the completion of period of current charge.”

During financial attest audit of GSP for the FY 2023-24, it was observed that three Senior Auditors (BS-16) were allowed to perform the function of signatories in violation of procedure of Asaan Assignment Account. Whereas, the officer holding regular or current charge in BS-17 was required to be nominated as signatory. This resulted in violation of procedure of Asaan Assignment Account.

Audit is of the view that due to weak internal controls, Senior Auditors in BS-16 were working as signatories in violation of procedure of Asaan Assignment Account.

The matter was reported to the management in September, 2024. The management in its reply stated that the requisition had been sent to CGA office on May 14, 2023 for posting of AOs/AAOs in CAO sub-offices. As and when suitable officers got posted at CAO Sub-Offices, cheque signing authority would be transferred accordingly.

The DAC in its meeting held on October 18, 2024 directed the management to pursue the matter with the quarter concerned. No further progress was reported till finalization of the report.

Audit recommends to ensure compliance of procedure of Asaan Assignment Account.

Note: The issue was reported earlier also in the Audit Reports for Audit Year 2023-24 vide para number 1.1.4. Recurrence of same irregularity is a matter of serious concern.

[MR GSP No. 1.7]

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 Non-Tax 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 administered 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) and Department of Explosive (DoE) are the attached departments of the Ministry of Energy (Petroleum Division). GSP 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 Explosives implements the enactments 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 Energy (Petroleum Division).

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

(Rs in million)

Sr. No.	Name of Entity	Auditable Entities	Audited	Expenditure involved FY 2023-24	Revenue involved FY 2023-24
1	MoE (PD) / Bodies / Department				
(i)	Ministry of Energy (PD)	1	1	654.549	1,285,252.801
(ii)	GSP	1	1	1,498.000	0
(iii)	Department of Explosives	1	1	122.908	599.565
(iv)	HDIP (expenditure & receipts)	1	1	917.501	951.727
	Profile of MoE (PD)/Bodies/Dep.	4	4	3,192.958	1,286,804.093
2	Profile of PSEs under the PAO	16	10	6,954,114.484	8,132,628.599

(B) Comments on Budget and Accounts

A comparison of revised estimates and actual Non-Tax Receipts of the Ministry for the FY 2023-24 is tabulated as follows:

(Rs in million)

Nature of Receipt	Original Target* 2023-24	Revised Target* 2023-24	Collection** 2023-24	Difference from Revised Target	
				Absolute	Percentage
1	2	3	4	5 (4-3)	6
Petroleum Levy (C03901)	869,000	960,000	1,019,222	59,222	6.17
Gas Development Surcharge (C03902)	40,000	27,169	30,509	3,340	12.29
Royalty on Oil (C03905)	50,000	57,917	64,377	6,460	11.15
Royalty on Gas (C03906)	75,000	93,567	100,991	7,424	7.93
Discount Retained on Local Crude Oil (C03910)	20,000	25,000	25,546	546	2.18
Windfall Levy on Oil (C03915)	35,000	28,000	27,522	(478)	(1.71)
Gas Infrastructure Development Cess (C03916)	40,000	2,500	2,889	389	15.56
Petroleum Levy on LPG	12,000	3,516	3,466	(50)	(1.42)

(C03917)					
Windfall Levy on Gas (C03919)	0	220	241	21	9.55
Others (C03506, C03808, C0380I)	4,500	8,300	11,089	2,789	33.60
Total	1,145,500	1,206,189	1,285,852	79,663	6.60

*Annual Budget Statement – Federal Budget 2024-25

** Collection according to AGPR Data

The Ministry collected Rs 1,285,852 million against revised estimates of Rs 1,206,189 million for the FY 2023-24. It showed overall excess collection of Rs 79,663 million (6.60% as compared with the revised estimates of receipts).

A comparison of actual receipts between the FYs 2022-23 and 2023-24 is tabulated as follows:

(Rs in million)

Nature of Receipt	Collection		Difference	
	FY: 2023-24	FY: 2022-23	Absolute	%age
1	2	3	4 (2-3)	5
Petroleum Levy (C03901)	1,019,222	579,910	439,312	75.76
Gas Development Surcharge (C03902)	30,509	10,672	19,837	185.88
Royalty on Oil (C03905)	64,377	50,182	14,195	28.29
Royalty on Gas (C03906)	100,991	70,131	30,860	44.00
Discount Retained on Local Crude Oil (C03910)	25,546	23,081	2,465	10.68
Windfall Levy on Oil (C03915)	27,522	27,731	(209)	(0.75)
Gas Infrastructure Development Cess (C03916)	2,889	10,940	(8,051)	(73.59)
Petroleum Levy on LPG (C03917)	3,466	3,419	47	1.37
Windfall Levy on Gas (C03919)	241	-	241	-
Others (C03506, C03808 and C0380I)	11,089	5,120	5,969	116.58
Total	1,285,852	781,188	504,666	64.60

(Source: Federal Civil Accounts (June-Final) of the Federal Government for the FY 2023-24)

The above table reveals significant improvement in collection of Petroleum Levy of Rs 1,019,222 million in 2023-24 as compared to Rs 579,910

million in FY 2022-23. However, there was declining trend in collection of Gas Infrastructure Development Cess and Windfall Levy on Oil.

2.1.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 270,315.640 million pertaining to Ministry of Energy (Petroleum Division) are reported during the current audit. This also includes recoverable amount of Rs 70,293.643 million. Recovery of Rs 129.317 million had been affected at the instance this Audit. Summary of the audit observations classified by nature is as follows:

Overview of Audit Observations

(Rs in million)		
Sr. No.	Classification	Amount
1	Non-Production of Record (1 Para)	-
2	Irregularities	-
A	Assessment and Realization of Non-Tax Receipts & Obligations	68,088.769
B	Exploration and Development Related Issues	34,251.310
C	Gas Subsidy Related Issues	144,050.123
3	Others	23,925.438
	Total	270,315.640

2.1.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
2004-05	3	0	3	0
2005-06	2	1	1	50
2006-07	1	0	1	0
2007-08	6	0	6	0
2008-09	16	10	6	63
2009-10	15	6	9	40
2010-11	27	21	6	78
2011-12	28	12	16	43
2012-13	22	10	12	45
2013-14	31	17	14	55

2014-15	25	9	16	36
2015-16	47	13	34	28
2016-17	49	1	48	2
2017-18	54	14	40	26
2018-19	10	2	8	20
2019-20	9	1	8	11
2020-21	1	0	1	0
2021-22	8	0	8	0
Total	354	117	237	33%

The table shows lacklustre approach towards compliance of PAC's directives. Therefore, serious follow up is required to ensure compliance of PAC's directives.

2.1.4 Audit Paras

Non-Production of Record

2.1.4.1 Non-production of record by DG (PC)

According to Article 170(2) of the Constitution of the Islamic Republic of Pakistan, “the audit of the accounts of the Federal and of the Provincial Governments and the accounts of any Authority or Body established by, or under the control of the Federal or a Provincial Government shall be conducted by the Auditor-General, who shall determine the extent and nature of such audit”. Further, according to Section 14(2) of 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 records for audit inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition. Furthermore, according to Section 14(3) of Ordinance *ibid*, any person or Authority obstructing the auditorial functions of the Auditor-General regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Discipline Rules, applicable to such person.

Moreover, according to Article XXII of PCAs, the accounts and supporting vouchers and documents, together with such reasonable facility as may be required for the audit of Joint Operations, shall be made available to the Auditor-General of Pakistan (with notification to the DG (PC) that this has been done) who may take such action as he deems fit.

During audit of Petroleum Division for the FY 2023-24, Audit requested to provide the auditable record pertaining to Petroleum Concession Agreements (PCAs) of 05 blocks on sample basis under Article XXII of PCAs of these blocks. However, it was refused to Audit despite repeated reminders by the Field Audit Team. Subsequently, the matter was escalated to the level of DG (PC) by the Director General Audit on September 23, 2024 and to the level of Principal Accounting Officer (PAO) of Ministry of Energy (Petroleum Division) by the Additional Auditor-General on October 24, 2024. However, the issue of non-production remained unresolved.

In such circumstances, Audit could not ascertain the sanctity of data regarding operations of joint ventures by E&P companies according to PCA.

The matter was reported to the management in November, 2024. The management in its reply dated December 24, 2024 stated that the jurisdiction of the Auditor-General's office was delineated by Articles 169 and 170 of the Constitution. These Articles restrict the Auditor-General's authority to the accounts of Federal and Provincial Governments, thereby excluding private entities from their purview. Audit contended that Article XXII of PCAs which was signed between the E&P company and the Federal Government required the operator to get its accounts audited from the Auditor-General of Pakistan.

The DAC in its meeting held on December 31, 2024 directed the management to seek clarification from Law Division. No further progress was reported till finalization of the report.

Audit recommends to seek clarification from Law Division besides fixing the responsibility for non-production of record.

[DP No. 3410]

Assessment and Realization of Non-Tax Receipts & Obligations

2.1.4.2 Short-realization of Non-Tax Receipts - Rs 65,781.528 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 Natural Gas sold by it.” Further, according to the Pakistan Exploration and Production Rules, 1986, 2001 and 2009, “the licensee or holder of a lease shall pay a Royalty at the rate of 12.5% of the wellhead value of the Petroleum produced and saved.”

During audit of Petroleum Division for the FY 2023-24, it was observed that management did not realize Non-Tax Receipts amounting to Rs 65,781.528 million from gas companies, refineries and E&P companies as detailed below:

(Rs in million)			
Sr. No.	Name of Non-Tax Receipts	Formation	Outstanding amount
1	Gas Development Surcharge	DG(Gas)	33,019.000
2	Royalty on Natural Gas and Crude Oil	DG(PC)	31,357.241
3	Late Payment Surcharge on Gas Infrastructure Development Cess	DG(Gas)	1,045.567
4	Fine on late payment of Royalty	DG(PC)	286.377

5	License and Lease Rent	DG(PC)	73.343
Total			65,781.528

Further, SNGPL and SSGC did not pay LPS on late payment of GIDC which became due in light of the Honourable Supreme Court decision in Civil Appeal No. 1113/2017.

Audit is of the view that weak monitoring and non-compliance of rules resulted in short-realization of Non-Tax Receipts.

The matter was reported to the management in November, 2024. DG (Gas), in its reply dated December 20, 2024, reported the recovery of Rs 1,341.002 million under GDS, while GIDC cases remained sub-judice. DG (PC) stated that Rs 18,166 million in royalty had been recovered, with Rs 13,191 million still outstanding, though audit noted a lack of supporting documents. Management explained that E&P companies contested LPS due to delayed payment by SSGC and deposited Royalty upon receiving payments. Additionally, Rs 1.300 million was recovered in lease and license rent, with the primary reason for non-deposit being the pending extension.

The DAC in its meeting dated December 26, 2024, directed DG (Gas) to establish a mechanism for GDS deposits, get verified Rs 1.300 Billion recovered amount, and expedite pending recoveries. Additionally, DAC directed DG (Gas) to pursue amendments in the GDS Ordinance. Regarding LPS on late payment surcharge of GIDC, DAC instructed DG (Gas) to engage with SNGPL and SSGC for recovery. In a subsequent meeting on December 31, 2024, DAC directed DG (PC) to get verified recoveries, formulate a mechanism for the proper assessment, reconciliation and recover outstanding dues, including royalty and fines on late royalty payments. No further progress was reported till finalization of this report.

Audit recommends that outstanding amount be recovered from the concerned besides improving monitoring mechanism of Non-Tax Receipts.

[DP Nos. 3139, 3145, 3151, 3158 & 3159]

2.1.4.3 Short-realization of obligations from the E&P companies – Rs 868.224 million

According to Section 4.1.2 of Petroleum Policy, 2012, Production Bonuses will be payable on a contract area basis on prescribed rates. Further

according to 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 31st January each year. The amount of social welfare funds 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 Petroleum Division for the FY 2023-24, it was observed that the management did not fully realize obligations from E&P companies as detailed below:

(Rs in million)		
Sr. No.	Name of Obligations	Amount
1	Production Bonus	502.638
2	Social Welfare Obligation	369.700
3	Training Fund	97.703
4	Marine Research Fee	27.500
Total		997.541

Audit is of the view that weak monitoring by the management resulted in non-recovery of obligations from the E&P companies.

The matter was reported to the management in September, 2024. During DAC meeting held on December 31, 2024, the management reported that Production Bonus of Rs 129.317 million had been recovered and verified from Audit. E&P companies had been directed to clear their Social Welfare and Training Fund obligations. Further, PPL deposited the entire amount of Marine Research Fee and company was directed to provide relevant evidences.

The DAC in its meeting held on December 31, 2024 directed the DG (PC) to expedite the recovery of outstanding amount of Production Bonus and get the stated stance verified by Audit in respect of Social Welfare Obligation, Training Fund and Marine Research Fee. DAC also directed to expedite the process of account opening and make necessary amendments for imposition of LPS on late payment in the new PCAs keeping in view the Public Finance Management Act. No further progress was reported till finalization of the report.

Audit recommends that outstanding amount be recovered from the concerned besides improving monitoring mechanism for recovery of obligatory amounts.

[DP Nos. 3140, 3142, 3153 & 3182]

2.1.4.4 Non-utilization of Social Welfare Fund - Rs 1,439.017 million

According to Annexure-3 of Petroleum Policy, 2012, “the amount of social welfare funds pledged by the companies (local and foreign) in their respective agreements must be utilized to give lasting benefit to the communities. Social welfare projects must be agreed with the local community and the civil administration as per guidelines issued by GOP from time to time.” Further, according to Para 1 of Guidelines for Utilization of Social Welfare Fund 2021, “the Social Welfare schemes shall be based on the requirement of area, as mentioned in Para 2 against the specified minimum financial obligations which will be identified and implemented by Social Welfare Committee, Chairperson of which shall be nominated by the Federal Minister.

During audit of Petroleum Division for the FY 2023-24, it was observed that Social Welfare fund of Rs 1,439.017 million was not utilized due to non-nomination of the Chairpersons of the Social Welfare Committees for all the districts of concession areas. Despite the request of DCOs / Secretaries of the Committees for nomination of the Chairpersons, Petroleum Division failed to nominate the Chairpersons. This resulted in non-utilization of Social Welfare fund of Rs 1,439.017 million.

Audit is of the view that non-compliance of the Social Welfare Guidelines resulted in non-utilization of social welfare contribution.

The matter was reported to the management in October, 2024. In DAC meeting held on December 31, 2024, the management stated that the Chairpersons of the Social Welfare Committees were required to be nominated by Federal Minister which was under process. DAC directed the management to expedite the finalization of District Committees. No further progress was reported till finalization of the report.

Audit recommends to finalize the nomination of the Chairpersons to ensure utilization of Social Welfare Funds.

[DP No. 3152]

Exploration & Development Related Issues

2.1.4.5 Unjustified declaration of marginal field, non-revocation and irregular gas allocation - Rs 641.219 million

According to Clause D of Marginal / Stranded - Gas Pricing Criteria and Guidelines, 2013, marginal discovery means a field which is uneconomical for development and production using current technologies based on the terms of current PCA applied to the size of reserves. Further, according to Section 42(1) of Pakistan Petroleum (Exploration and Production) Rules 2001, “the lease may be revoked if regular commercial production has not commenced within five years from the grant of a lease”. Furthermore, according to Clause V of DG (PC) letter dated December 23, 2020, “the company will carry out fast track development of Zainab field strictly in accordance with the approved Field Development Plan and would commence production of petroleum from this field till December, 2021 and supply pipeline quality gas to a buyer to be nominated by the Government”.

During audit of Petroleum Division for the FY 2023-24, it was observed that management extended undue benefits to M/s PEL in the Zainab field, Badin-IV South Block. DG (PC) granted a provisional marginal field without properly assessing its economics, failed to revoke the lease despite its expiry on December 31, 2022, and irregularly allocated gas to a third party. The authority for gas allocation rested with DG (Gas), not DG (PC). This resulted in irregular grant of marginal lease benefit of US\$ 2.334 million equivalent to Rs 641.219 million, non-revocation of lease and irregular third-party allocation of gas.

Audit is of view that weak management resulted in irregular declaration of field as marginal, non-revocation of lease and irregular third-party allocation of gas.

The matter was reported to the management in October, 2024. In DAC meeting held on December 31, 2024, the management stated that field was declared as provisional marginal subject to provision of 3rd party certification. However, in the instant case, neither 3rd party certification was provided nor Government declared the field as marginal in accordance with guidelines. Further, sale of gas to 3rd party was approved by the competent authority.

The DAC directed the management to conduct fact finding inquiry and submit report to Audit within three months.

Audit recommends to fix responsibility on person(s) at fault besides improving the lease management.

[DP Nos. 3149, 3150 & 3181]

2.1.4.6 Un-authorized shifting of installation and facilities of depleted fields - Rs 845.582 million

According to Rules 69(2 & 3) & 73(2 & 3) of Pakistan Petroleum (Exploration and Production) Rules, 1986 & 2009 respectively, when a lease/petroleum right has been 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 lease area which are necessary for the production of Petroleum.

During audit of Petroleum Division for the FY 2023-24, it was observed that management failed to take over the installation and facilities upon the depletion of three D&P leases i.e. Ghauri, Fateh Shah, and Tajjal operated by MPCL and UEP, despite lapse of a period ranging from 03 to 15 years. This improper lease management allowed E&P companies to irregularly keep or transfer equipment of Rs 845.582 million from the depleted fields to other fields, highlighting significant lapses in oversight and enforcement by DG (PC).

Audit is of the view that weak monitoring resulted in irregular transfer of equipment and non-taking over of the installation and facilities.

The matter was reported to the management in August & September, 2024. The management in its reply dated December 24, 2024 reported that matter had been taken up with E&P companies for shifting of the equipment without prior approval of the Government and future course of action would be initiated as per applicable rules.

The DAC in its meeting held on December 31, 2024 directed the management to follow up the matter. No further progress was reported till finalization of the report.

Audit recommends to conduct fact finding inquiry for non-taking up of installation and facilities besides pursuing the matter with the concerned companies for recovery of market value of installation and facilities.

Note: The issue was reported earlier also in the Audit Report for Audit Years 2023-24 vide para number 2.1.4.21 having financial impact of Rs 3,015.408 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 3185]

2.1.4.7 Non-fulfilment of work commitments by E&P companies due to non-monitoring by DG (PC) - Rs 27,665.910 million

According to Rule 21(2) of E&P Rules 2013, “a holder of a license shall perform the work programme stipulated in the license as per schedule contained therein, along with other obligations as referred to in these Rules”. Further, functions of DG (PC) include management of petroleum exploration, development and production operations in accordance with the good international oil field practices, applicable Rules and petroleum concession.

During audit of Petroleum Division for the FY 2023-24, it was observed that eight Exploration and Production (E&P) companies did not complete the minimum exploration work in 25 exploration blocks as per the agreed work programmes. Out of these 25 blocks, the cases of 15 blocks were pending with DG (PC) for further action due to the expiry of licenses. This resulted in non-performance of committed work by E&P companies amounting to US\$ 100,669,200 equivalent to Rs 27,665.910 million.

Audit is of the view that improper follow up and non-action on expiry of licenses by DG (PC) resulted in non-fulfilment of work commitments.

The matter was reported to the management in October, 2024. In DAC meeting held on December 31, 2024, the management stated that E&P companies were facing issues for not fulfilling the work commitments due to volatile security situations, delay in NOCs from various Authorities, supply chain issues, and Letter of Credit opening issues. In several cases, the operators apply for further extensions for fulfilment of the work program.

The DAC directed the management to submit detailed reply on case-to-case basis and provide report on efforts made by the management to resolve the

security and allied issues. No further progress was reported till finalization of the report.

Audit recommends to ensure performance of work commitment by E&P companies as per work program and develop a mechanism for fulfilment of work commitments.

[DP No. 3144]

2.1.4.8 Acceptance of non-enforceable security on revival of exploration licenses - Rs 3,220.577 million

According to Article of 3.7(a) and (b) of Model PCA framed under Petroleum Production & Exploration Policy 2001, the company shall provide a bank guarantee or a parent company guarantee as required and notified by the Government or such other security package as may be prescribed by the Government for local Working Interest Owners as per applicable Policy.

During audit of DG (PC) for the FY 2023-24, it was observed that management accepted defective securities from M/s PEL against two exploration licenses (Mirpurkhas West and New Larkana) in form of hypothecation agreements by rendering Kandra Gas Field and 26% sales proceeds for supply of natural gas from Block-22, as security for minimum work commitments. Audit held that, Kandra Gas Field was un-developed, making the security unrealizable. Further, in respect of Block-22, PEL was delaying payments of Royalty and other obligations since 2015 and there was probability of non-realization of amount corresponding to un-fulfilled work commitment on the ground that Hypothecation Agreement contained inherent flaw of non-existence of recovery mechanism.

Audit is of the view that weak monitoring and improper license management resulted in acceptance of unrealizable security amounting to Rs 3,220.577 million.

The matter was reported to the management in August, 2024. In DAC meeting held on December 31, 2024, the management stated that DG (PC) accepted hypothecation agreements after approval by the Secretary Petroleum.

The DAC directed the management to submit detailed reply regarding appraisal of reservoir besides progress of work commitments so far performed by the E&P company. No further progress was reported till finalization of the report.

Audit recommends to take corrective measures besides ensuring realizable security from E&P companies in future.

[DP Nos. 3141 & 3147]

2.1.4.9 Non-finalization of flare gas utilization plan resulting in flaring - Rs 945.482 million

According to Rule 56(2) of Pakistan Petroleum (Exploration and Production) Rules 1986, “the holder shall not flare any natural gas or use it to create or increase the pressure in the reservoir without the Government’s approval”. Further, according to Section I of Utilization of Flare Gas (FG) Guidelines, 2016 “flare gas utilization plan should be an integral part of the Field Development Plan. All existing lease holders shall submit flare gas utilization plan within 120 days of the publication of these guidelines”.

During audit of Petroleum Division for the FY 2023-24, it was observed that E&P companies did not submit flare gas utilization plan to DG (PC) as required under Guidelines. A sample review of the production from 10 fields of OGDCL revealed that, due to the non-finalization of flare gas utilization plan by DG (PC), 1,564,196 MMBTU of gas of Rs 945.482 million, was flared from these fields.

Audit is of the view that non-finalization of flare gas utilization plan by DG(PC) resulted in flaring of gas and loss of revenue.

The matter was reported to the management in October, 2024. In DAC meeting held on December 31, 2024, the management stated that according to OGDCL, the flaring was unavoidable due to technical and supply maintenance issues. Audit contended that DG (PC) failed to ensure submission of Flare Gas Utilization Plan by all existing lease holders.

The DAC directed the management to get the stated stance regarding field wise flaring of the gas verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to ensure finalization of Flare Gas Utilization Plans to prevent avoidable flaring of gas.

[DP No.3143]

2.1.4.10 Illegal sale of gas without approval of regulator - Rs 594.474 million

According to Clause E(1) of Marginal / Standard Gas Fields – Gas Pricing Criteria and Guidelines 2013 read with Section 69(a) of Pakistan Petroleum (Exploration and Production) Rules 2001, “in order to become eligible to claim incentives given in this Guidelines, the producers of Marginal Fields shall be required to obtain a certification from an independent consultant for confirmation that such gas qualifies as Marginal Gas as defined in this policy, assessment of Marginal Gas reservoir and Marginal Gas reserves to be done in accordance with best international petroleum industry methods, and certification that such gas cannot be produced naturally through conventional methods at commercial rates ”.

During audit of Petroleum Division for the FY 2023-24, it was observed that M/s PEL illegally sold gas from the Badin-IV South Block to its affiliate, M/s Shahzad Processing, without government or JV partners' approval, despite prior allocation to SSGC. Following a complaint from FHPL regarding the unauthorized sale of 01 MMCFD gas, an inquiry committee was formed on February 17, 2023. Its findings, signed by all members except DG (PC), concluded that PEL violated Marginal Field Guidelines, 2013 and ECC's approval. This led to an illegal sale of 400 MMCF gas worth Rs 594.474 million and non-payment of due amount of Royalty and Windfall Levy.

Audit is of the view that weak oversight by DG (PC) resulted in illegal sale of gas.

The matter was reported to the management in September, 2024. In DAC meeting held on December 31, 2024, the management stated that matter was sub-judice in the Islamabad High Court and last date of hearing was July 08, 2024.

The DAC directed the management to pursue the case vigorously. No further progress was reported till finalization of the report.

Audit recommends to pursue the court case vigorously besides improving lease management.

[DP No. 3350]

**2.1.4.11 Delay in authorization of third party sales by DG (PC) -
Rs 231.916 million**

According to DG (PC)'s letter dated July 07, 2023, the recommendations of third-party consultant in respect of Bhal Syden and Sadkal fields were approved subject to condition to explore 3rd party sale options and come up with agreed terms and conditions for approval.

During audit of Petroleum Division for the FY 2023-24, it was observed that OGDCL was selling gas to third party from Sadkal Field without obtaining approval of government and earlier same was allocated to M/s SNGPL. However, OGDCL, citing high line pressure and compressor issues ceased supply to SNGPL. Consequently, OGDCL sold 372,910 MMBTU of gas worth Rs 231.916 million from October 2023 to June 2024 without proper authorization. The improper regulatory actions by DG (PC) coupled with DG (Gas)'s failure to monitor gas supply to SNGPL, resulted in irregular third party sales.

Audit is of the view that DG (PC) and DG (Gas) offices failed to perform their functions specifically in respect of approval of third-party allocation of gas and monitoring of supply of gas to SNGPL.

The matter was reported to the management in September, 2024. The management in its reply dated December 24, 2023 stated that in the instant case, the company sold the gas to third party under the ambit of Flare Gas Utilization Guidelines and no approval was required. Audit contended that DG (PC) in its letter dated July 07, 2023 directed OGDCL to explore option for 3rd party sales and come for approval after regulatory approvals from OGRA, Department of Explosives etc.

The DAC in its meeting held on December 31, 2024 directed the management to get the stated stance verified by Audit with documentary evidence and provide ex-post facto approval for allocation of gas. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility on persons at fault for third party sales without approval of regulator besides improving the monitoring in future.

[DP No. 3179]

2.1.4.12 Non-recovery of Lease Extension Bonus - Rs 106.15 million

According to Rule 35 of Pakistan Onshore Petroleum (E&P) Rules 2013, “after the expiry of a lease period, the Authority may renew or re-grant, as the case may be, the lease for up to a further five years, provided the lease holder agrees, at least one year prior to the expiry of the lease period, to pay 15% of wellhead value of petroleum produced to the Federal Government. If such agreement is not concluded the Authority may invite bids from prequalified companies for the grant of a lease over the same, or substantially the same area as the expiring lease, for a term of ten years or such lesser period for which commercial production is expected.”

During audit of Petroleum Division for the FY 2023-24, it was observed that the management granted undue benefit to OGDCL to continue production of hydrocarbons from Sadkal lease without getting payment of signature bonus. As per the E&P Rules 2013, DG (PC) was required to either extend the lease for another 5 years upon request of the E&P company and on payment of amount of 15% of the wellhead value as signature bonus or invite bids one year before expiry of lease (i.e. January 23, 2023). DG (PC), however, did not finalize either of options which resulted in non-recovery of Rs 106.150 million (US\$ 0.386 million) on account of signature bonus.

Audit is of the view that lack of vigilance in performance of regulatory functions resulted in non-recovery of signature bonus amounting to Rs 106.15 million.

The matter was reported to the management in August, 2024. The management in its reply dated December 24, 2024 reported that Sadkal lease had been re-granted to OGDCL with the condition of payment of Signature Bonus. Audit contended that DG (PC) was required to recover lease extension bonus w.e.f. January 24, 2024 which was still recoverable.

The DAC in its meeting held on December 31, 2024 directed the management to get the stated stance verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to recover Lease Extension Bonus from OGDCL.

[DP No. 3180]

2.1.4.13 Irregular sale of oil and gas to third party

According to ECC's decision dated January 17, 2023, the forum approved proposal of Ministry of Energy (Petroleum Division) to allow TAL joint venture to sale gas from Mamikhel South discovery to third party with the stipulations regarding disposal of oil and gas at competitive prices.

During audit of DG (PC) for the FY 2023-24, it was observed that M/s MOL was selling gas from Mamikhel South gas-field to M/s Universal Gas Distribution Company (a third party) without inviting the open competition for determining the competitive prices of potential buyers. This resulted in supply of gas to third party against the directives of ECC and irregular third party sales of gas of Rs 8,937.666 million.

Audit is of the view that due to weak monitoring by DG (PC) resulted in non-compliance of directives of ECC.

The matter was reported to the management in September, 2024. The management in its reply dated December 24, 2024 informed that company was being pursued for provision of information required to ensure compliance of ECC decision.

The DAC in its meeting held on December 31, 2024 directed the management to get their stance verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility on persons at fault for not taking action against the JV on non-compliance of ECC directives.

[DP No. 3184]

Gas Subsidy Related Issues

2.1.4.14 Irregular payment to SNGPL on account of RLNG diversion to domestic and commercial consumers - Rs 116,057.911 million

Economic Coordination Committee (ECC) has made several decisions regarding the use of RLNG by SNGPL to manage natural gas shortages during the winter and financial impact of RLNG diversion. In November, 2018, the ECC allowed RLNG injection into the system on a cost-neutral basis, provided OGRA permits volumetric adjustments. In July, 2020, the ECC decided that OGRA would provisionally allow recovery of the RLNG revenue shortfall based

on the actual volumes diverted to domestic and commercial sectors. This approach was reaffirmed in October 2020 by ECC, enabling SNGPL to manage the domestic and commercial load through RLNG diversion.

During audit of Petroleum Division for the FY 2023-24, it was observed that DG (Gas) disbursed RLNG diversion subsidies to SNGPL in violation of ECC directives. The subsidy for RLNG diversion was neither budgeted nor approved by the ECC. Despite this, DG (Gas) authorized payments totalling Rs 116,057.911 million to SNGPL for the subsidy on RLNG diversion, contravening the established procedure, which required OGRA to verify RLNG volumes and allow for the financial shortfall. This resulted in an irregular payment of Rs 116,057.911 million without the approval of ECC, and without volume verification.

Audit is of view that inadequate oversight by the Petroleum Division resulted in irregular payments without ECC's authorization and verification of volumetric diversion.

The matter was reported to the management in September, 2024. The management in its reply dated October, 2024 stated that the Federal Cabinet approved a supplementary grant of Rs 50.000 Billion for SNGPL against gas subsidies. Further, OGRA was directed to allow the recovery of RLNG diversion costs through monthly RLNG pricing. Further, OGRA had conducted third-party verification of the RLNG volumes, and to date, no discrepancies had been identified in either the volumes or the amounts charged.

The DAC in its meeting held on December 26, 2024 directed the management to regularize the matter. No further progress was reported till finalization of the report.

Audit recommends to get the matter regularized from the competent authority.

[DP No. 3166]

2.1.4.15 Mismanagement of diversion of RLNG to domestic sector in winter leading to excessive financial impact - Rs 16,334.249 million

According to ECC decision vide case No. ECC/319/41/2023 dated October 23, 2023 decided that both Sui companies would be allowed to provide blend of indigenous gas and RLNG to export industry as suggested by Petroleum

Division in para 4(V) and (VI) of the summary “currently industry in north (operating on SNGPL network) consumes 50:50 blend of Indigenous and RLNG for 9 months (March to November) and 100% RLNG for 3 months (Dec-Feb). The Sui Companies shall offer blended gas based on the availability of natural gas and RLNG while prioritizing higher natural gas allocation to export consumers”.

During audit of Petroleum Division for the FY 2023-24, it was observed that DG (Gas) allowed SNGPL to supply a blend of indigenous gas and RLNG to the industrial sector during winter while simultaneously diverting large volumes of RLNG to the domestic sector, in violation of ECC directives. On September 4, 2023, SNGPL submitted its winter gas load management plan for FY 2023-24, stating that there would be no curtailment of gas/RLNG supply to the industrial sector (Process + Captive) and that RLNG volumes needed to be diverted to the domestic sector to meet the increased demand. However, this plan was not reviewed by DG (Gas). As a result, SNGPL supplied an average of 59 MMCFD of indigenous gas to the industrial sector, despite the limited availability of this resource. Due to the scarcity of indigenous gas, an average of 294 MMCFD of RLNG was diverted to the domestic sector. This diversion led to a 20% increase in RLNG usage for the domestic sector and resulted in a financial impact of Rs 16,334.249 million due to the excess volume of RLNG diverted.

Audit is of view that inadequate oversight by the Secretary Petroleum Division led to mismanagement in load management during winter months of 2023-24, resulting in a significant financial impact due to the excess diversion of RLNG to the domestic sector.

The matter was reported to the management in October, 2024. The management in its reply dated December 18, 2024 stated that the Winter Gas Load Management Plan for FY 2023-24, submitted by SNGPL reflected the operational realities. During the winter months the allocation of 59 MMCFD of indigenous gas to the industrial sector was carefully balanced with the overall supply-demand situation with priority given to natural gas where available to reduce costs for industrial consumers.

The DAC in its meeting held on December 26, 2024 directed the management to submit revised reply with reference financial impact of both blends. No further progress was reported till finalization of the report.

Audit recommends to probe the matter besides improving sector-wise gas allocation in future.

[DP No. 3167]

2.1.4.16 Excess subsidy disbursement due to gas supply exceeding approved load - Rs 11,657.963 million

According to mechanism followed by DG (Gas)-Petroleum Division while disbursing the claim of subsidy of RLNG to Industrial units; “Blend of gas/ RLNG is supplied to registered export-oriented units against their sanctioned loads” vide DG (Gas) letter No. NG(I)-7(192)/24 dated August 16, 2024. Further, according to Finance Division’s instructions vide U.O. No.3(11) Oil/2018/31 dated January 18, 2019 and Petroleum Division / DG Gas instructions vide NG(I)-7(189)/21-Vol-III dated November 30, 2021 to SNGPL, regarding inspection to eliminate misuse/ unauthorized use of subsidized gas to industrial units/ authentication of exports made by EOUs.

During audit of Petroleum Division for the FY 2023-24, it was observed that management disbursed a subsidy to SNGPL for the supply of RLNG to industrial units without adhering to their contractual sanctioned loads. Petroleum Division approved subsidies claim of SNGPL based on excess RLNG supply than contractual loads in respective GSAs with consumers. SNGPL’s claims included 130 EOUs which received subsidies for RLNG supply exceeding their approved contractual loads as per GSA during the FYs 2018-19 to 2022-23. SSGC’s claims included 14 EOUs which received subsidies for RLNG supply exceeding their approved contractual loads during FY 2022-23. This resulted in inadmissible disbursement of subsidy of concessionary RLNG tariff to SNGPL of Rs 11,582.681 million and to SSGC of Rs 75.282 million.

Audit is of the view that weak financial controls of DG (Gas) resulted into inadmissible disbursement of subsidy.

The matter was reported to the management in September, 2024. The management in its reply dated December 18, 2024 stated that subsidy to exporters in five zero-rated sectors was based on actual RLNG / gas

consumption, as authorized by the Ministry of Finance's letter and ECC decision. The subsidy mechanism, allowing reimbursement based on actual usage, had no specific cap on volume, promoting competitiveness. SNGPL was instructed to submit claims aligned with export-oriented units' operational needs. As the disbursement adhered to Finance Division and ECC guidelines, it was not bound by any capped limit or contractual loads exceeding individual consumption.

Audit contended that DG (Gas) disbursed a subsidy to SNGPL / SSGC for the supply of RLNG to industrial units without adhering to their own mechanism involving the blend of gas and RLNG supplied to industrial units (EOUs) within their sanctioned loads while taking sanction from PAO. Further, SNGPL / SSGC executed GSAs for specific quantity / load but supplied excess quantity than approved load against the GSAs on cessionary rates.

The DAC in its meeting held on December 26, 2024 directed the management to recover the excess amount of subsidy under intimation to Audit. No further progress was reported till finalization of the report.

Audit recommends to recover the excess amount of subsidy from SNGPL and SSGC.

[DP No. 3165]

Others

2.1.4.17 Loss due to payment against shortfall in guaranteed annual throughput - Rs 7,600 million

According 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 audit of Petroleum Division for the FY 2023-24, it was observed that Petroleum Division paid Rs 7,600 million to M/s Asia Petroleum Ltd. through PSO on account of shortfall in the annual guaranteed throughput of

Residual Furnace Oil supplied to Hub Plant. The shortfall was occurred on the reason that plant was not utilized in full capacity as a result the guaranteed throughput of RFO was not met.

Audit is of the view that poor contract management resulted in defective agreement causing loss of Rs 7,600 million.

The matter was reported to the management in October, 2024. The management in its reply dated December 19, 2024 stated that pursuant to Schedule 3 of Implementation Agreement, GOP provided a sovereign guarantee to pay for any shortfall in the guaranteed throughput. The shortfall occurred due to merit order observed by Power Purchaser and the power plant was not utilized in full capacity resultantly, APL pipeline utilization remained below the guaranteed throughput.

The DAC in its meeting held on December 27, 2024 directed the management to take up the matter with Power Division to resolve the issue within one month. No further progress was reported till finalization of the report.

Audit recommends to review the agreement and expedite working on alternate use of pipeline.

[DP No. 3174]

2.1.4.18 Non-application of OGRA notified prices led to increase in urea costs - Rs 7,210.354 million

According to ECC's decision dated March 15, 2023, the forum directed Petroleum Division to supply indigenous gas to Fatima Fert (Sheikhupura) and Agritech (Mianwali) plants immediately up to May 31, 2023. Further, there shall be no subsidy involved in supply of gas to fertilizers plants. In continuation of above ECC's decision the forum in its decisions dated May 24, 2023 and August 08, 2023 extended the period of supply of gas up to October 15, 2023 on OGRA's notified rates. Furthermore, OGRA notified prices vide reference dated February 15, 2023 for sale of natural gas to Agritech and Fatima Fert.

During audit of Petroleum Division for the FY 2023-24, it was observed that DG (Gas) instructed SNGPL to supply indigenous gas to fertilizer plants i.e. M/s Fatima Fertilizer and Agritech at a rate of Rs 1,050/MMBTU, despite the fact that neither the rate was approved by ECC in its decision of March 15, 2023 nor notified by OGRA. The rate conveyed by DG (Gas) was significantly higher

than the OGRA-notified price, which resulted in a sharp increase in urea prices from Rs 2,440 to Rs 3,277 per 50 kg bag. Fertilizer plants paid an additional cost of gas of Rs 7,877.033 million for ammonia and urea production. This increased cost was passed on to farmers, who paid an additional cost of Rs 7,210.354 million for 9,830,067 urea bags.

Audit is of the view that the lack of oversight by Petroleum Division resulted in non-implementation of OGRA's notified prices leading to increase in urea costs for farmers.

The matter was reported to the management in September, 2024. The management in its reply dated October, 2024 stated that the rate of Rs 1,050 / MMBTU of gas supplied to two fertilizer plants was communicated based on the ECC decision dated March 15, 2023 aligning SNGPL's revenue requirements at that time. To address the discrepancy between the OGRA notified rates and prescribed price of SNGPL, a summary was submitted on January 30, 2024, proposing an amendment in ECC decision dated August 08, 2023 to align the gas rate which was approved by ECC on February 07, 2024.

Audit contended that reply was not tenable as DG (Gas) unilaterally decided a rate of Rs 1,050 / MMBTU for gas supplied to two fertilizer plants and obtained approval of ECC after 11 months without informing the forum that OGRA notified rates were available for gas supply to fertilizer plants.

The DAC in its meeting held on December 26, 2024 directed the management to reconcile the issue with Audit. No further progress was reported till finalization of the report.

Audit recommends to probe the matter besides ensuring that unified rates of gas be available to a sector in future.

[DP No. 3169]

2.1.4.19 Irregular approval of finance cost for delayed release of RLNG subsidy Rs 1,096 million

According to Condition 39.1 of License read with provisions of the Sale of Goods Act, 1930 and the Contract Act, 1872, "the licensee shall not sell gas to consumers without a contract. All agreements or contracts should be negotiated, entered into or amended on an arms' length basis and in accordance with the provisions of the Ordinance and the Rules." According to Rule 12 of Rules of

Business, 1973 no Division shall, without previous consultation with the Finance Division, authorize the issue of any orders, other than orders in pursuance of any general or special delegation made by the Finance Division, which will affect directly or indirectly the finances of the Federation.

During audit of Petroleum Division for the FY 2023-24, it was observed that the Economic Coordination Committee (ECC) of the Cabinet in its decision dated September 10, 2018 approved the operationalization of two fertilizer plants, M/s Fatima Fertilizer and Agritech, to receive RLNG at capped prices with subsidy of the differential for RLNG prices. During the initial operational period, SNGPL claimed Late Payment Surcharges amounting to Rs 1,518 million due to delayed government subsidies. ECC approved Rs 1,096 million as finance costs in its decision dated November 19, 2021, despite no agreement between SNGPL and the Federal Government regarding LPS. This oversight resulted in undue favour to SNGPL and irregular approval of Rs 1,096 million.

Audit is of the view that Petroleum Division's lack of oversight in addressing the absence of a formal agreement was a major contributing factor towards irregular approval of finance costs on delayed subsidy releases.

The matter was reported to the management in October, 2024. The management in its reply dated December 18, 2024 stated that agreements with fertilizer plants were executed & ECC approved release of finance cost on the summary of M/o Industries & Production.

The DAC in its meeting held on December 26, 2024 directed the management to conduct the fact finding to assess the legitimacy of financial cost paid on LPS. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility on persons at fault besides improving financial controls.

[DP No. 3172]

2.1.4.20 Unjustified approval of gas schemes under SDGs Achievement Program - Rs 1,016 million

According to Cabinet Division (Development Wing), notification No. F.1-1/2022-SO(Dev-II) dated June 13, 2022. Funding from SDGs achievement programme would qualify for gas-related projects (subject to the availability of gas and certified by the Petroleum Division. Furthermore, Clause 4(iii)(a) of

these guidelines mandates that Federal Ministries/Divisions ensure the feasibility and public interest of the schemes before implementation.

During audit of Petroleum Division for the FY 2023-24, it was observed that the Petroleum Division released Rs 1,016 million to SNGPL during FY 2023-24 for gas projects under the SDG schemes. Despite a moratorium on new gas connections due to depleting gas reserves, the Petroleum Division approved these schemes without certifying availability of gas. Approval of gas schemes and provision of funds in violation of guidelines ibid led to wasteful expenditure, as the dwindling gas supplies meant RLNG would be used causing increase in government subsidies. This resulted in unjustified approval of gas schemes under SDGs programme Rs 1,016 million and wasteful expenditure of Rs 439.095 million under SAP and further burdened the government with subsidies for replacing indigenous gas with RLNG.

Audit is of view that inadequate oversight by the Petroleum Division resulted in unjustified approval of gas schemes and wasteful expenditure.

The matter was reported to the management in October, 2024. The management in its reply dated December 18, 2024 stated that the Steering Committee in its 33rd meeting held on January 11, 2023 directed the Petroleum Division to complete ongoing schemes approved during FYs 2013-18 using available funds, savings, and accrued interest. The funds were designated for fulfilling prior commitments, particularly in areas with partially laid gas infrastructure, not for new schemes.

The DAC in its meeting held on December 26, 2024 directed the management to get the stated stance verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to probe the matter besides ensuring the completion of gas schemes.

[DP No. 3170]

2.1.4.21 Disposal of plant & machinery, installation and facilities without payment of Customs Duty – Rs 273.909 million

According to Condition vi(a) of SRO 678(1)/2004, dated August 07, 2004 read with Section 156(10) of the Customs Act 1969, “items imported at concessionary rates when become surplus, scrap, junk, obsolete or otherwise

shall be disposed through a public tender and duties shall be recovered at the rate of ten percent ad valorem of the sale proceeds.”

During audit of Petroleum Division for the FY 2022-23, it was observed that the management failed to ensure payment of applicable Customs Duty from M/s MOL, POL & M/s OPL on account of disposal of the plant, machinery and material as disclosed in joint audited account of the Blocks. This resulted in non-payment of Custom Duty amounting to Rs 273.909 million.

Audit is of the view that due to weak regulatory oversight by DG (PC) Custom Duty could not be paid by the operator.

The matter was reported to the management in September, 2023. The management in its reply dated December 12, 2023 stated that collection of Customs Duty was the domain of FBR. Therefore, instant para did not fall under the administrative control of DG (PC).

The DAC in its meeting held on December 19, 2023 directed the DG (PC) to take up the matter with concerned E&P companies regarding provision of evidence of deposit of Custom Duty and share the outcome with Audit with a copy to FBR. No further progress was reported till finalization of the report.

Audit recommends to recover Customs Duty from the E&P companies besides improving regulatory oversight.

[DP No. 2533]

2.1.4.22 Unjustified allocation of Kabir X-1 well gas to M/s E-GAS without competitive bidding - Rs 114.660 million

According to ECC decision vide Case No. ECC-167/15/2021 dated May 21, 2021 considered the summary dated April 26, 2021 submitted by the Petroleum Division titled Gas Allocation to Third Parties and approved the proposal as contained at Para 5 of the summary and also directed that such routine matters should be decided at ministerial level. Para 5 of summary is reproduced “the Petroleum Division proposes gas from NF Hor-I (RE) may be allocated to PPL for a period of two years for sale of to any third party selected through a competitive bidding process at mutually agreed and negotiated price under a Gas Sale and Purchase agreement.

During audit of Petroleum Division for the FY 2023-24, it was observed that management reallocated 1 MMCFD of gas from PPL's Kabir X1 well to M/s E-Gas without conducting an open competitive bidding process, violating the ECC decisions dated May 21, 2021, and December 10, 2021. Additionally, the Kabir GSA with M/s E-Gas, initially for a virtual pipeline, became void after Kabir X1 was declared commercially viable and PPL installed a pipeline. Previously, gas from Kabir X1 had been allocated to SSGC during the commercial phase after M/s E-Gas's failure to meet its financial obligations. This resulted in irregular sales of 81,900 MMBTU gas amounting to Rs 114.660 million.

Audit is of the view that DG (Gas) office failed to ensure compliance of directives of ECC specifically re-allocation of gas to M/s E-Gas without open competition.

The matter was reported to the management in September, 2024. The management in its reply dated October, 2024 stated that the Petroleum Division was apprised in order to resolve the legacy issue while avoiding further litigation between both parties, gas was re-allocated to M/s E-Gas as per their offer subject to approval of the same by PPL's Board of Director. Since gas was re-allocated as per their earlier agreement, therefore, neither re-bidding was required nor any ECC's decision was violated. Further, the referred ECC's decision of May 21, 2021 did not restrict Petroleum Division to allocate gas in EWT phase only.

The DAC in its meeting held on December 26, 2024 directed Petroleum Division to conduct the fact finding and submit report within two months. No further progress was reported till finalization of the report.

Audit recommends to inquire the matter besides improving mechanism of allocation of gas.

[DP No. 3163]

2.1.4.23 Non-implementation of LNG policy due to non-determination of economic cost and lack of private sector participation

Federal Government introduced two LNG Policies in 2006 and 2011 with a view to optimizing the primary energy mix, based on economic and strategic considerations; enhancing private sector participation in the energy sector by strengthening the regulatory framework and institutional capacity and developing energy infrastructure. According to Para 3.1(b) of LNG Policy,

2011, LNG Developer or LNG Buyer / RLNG Seller will provide evidence of sufficient purchase commitment (in the form of a Head of Agreement) from end users for a minimum volume of RLNG sufficient to support the terminal investment and the potential for further sales, if necessary, in order to cover the full contractual LNG purchase commitment.

During audit of Petroleum Division for the FY 2023-24, it was observed that LNG regasification agreement for the first terminal between SSGC and Engro Elengy Terminal Private Ltd. was signed in April, 2014. However, the agreement with the LNG Terminal Operator did not comply with the LNG Policy, 2011. Key requirements, such as considering the economic cost to determine the floor and ceiling of LNG prices for affordable power generation and executing long-term agreements, were not met. Furthermore, no firm demand for RLNG was assessed by SNGPL, and the firm demand from three GPPs was reduced from 66% to 33% under the Monthly Delivery Plan and private sector participation could not begin due to the lack of Third-Party Access to unused terminal and pipeline capacity.

Audit is of the view that non-compliance with LNG Policy 2011 disrupted the LNG/RLNG supply chain, leading to curtailed local gas and increased RLNG diversion to the domestic sector.

The matter was reported to the management in October, 2024. The management in its reply dated December 19, 2024 stated that Petroleum Division was conducting a study through M/s Wood Makenzie for rationalizing demand of gas sector. Accordingly, gas sector reforms would be developed for effective utilization of RLNG and indigenous gas.

The DAC in its meeting held on December 31, 2024 directed the management to pursue the study in order to respond to points raised by Audit. No further progress was reported till finalization of the report.

Audit recommends to take steps for proper implementation of LNG Policy in letter and spirit.

[DP No. 3156]

Corporate Affairs Related Issues

2.1.4.24 Excess and irregular appointment of ex-officio members on SOEs Boards by Petroleum Division

According to Clause 24(m) of SOE Ownership & Management Policy, 2023, the BNC will ensure the compliance of guidelines for making a proposal for SOE Boards regarding representation from the administrative Ministry / Division on the Boards of SOEs shall be restricted to one member per Board. Further, according to Section 10(2b) of SOE Act, 2023, the board nomination committee shall be responsible for recommending ex-officio positions to be held by relevant division or public sector organizations of the Federal Government or where necessary, a provincial government.

During audit of Petroleum Division for the FY 2023-24, it was observed that management did not take corrective action to reduce the number of its ex-officio members appointed on the boards of ISGS, PMDC, GHPL, SNGPL, and PSO after enforcement of SOE Policy guidelines *ibid*. Resultantly, these members continued to participate in board activities and received board fees, thereby violating the provisions of the SOE Policy, 2023. Additionally, the BNC recommended the number of ex-officio members for the boards of ISGS, PMDC, and GHPL to the Federal Government, instead of recommending specific ex-officio positions, as required by the SOE Act. The Secretary, Petroleum Division, unilaterally selected the ex-officio positions without adequate deliberation or consideration of the required knowledge, skills, and experience. This resulted into excess and irregular appointment of ex-officio members to SOE boards.

Audit is of the view that as a result of weak regulatory oversight by the Secretary of the Petroleum Division led to the over and irregular appointment of ex-officio members to SOE boards.

The matter was reported to the management in October, 2024. In DAC meeting held on January 02, 2025, Petroleum Division stated that nomination of Board was made prior to introduction of SOE Policy. The point raised by Audit would be highlighted during the BNC meeting in future. Further, management stated that ex-officio members were inter-face between the company and ministry. The Secretary nominated the officers as per their experience and skill.

The DAC directed the management to identify the discrepancies in various Acts and policies and seek clarification from Law Division. Further, DAC directed to submit detailed report on the points raised by Audit.

Audit recommends to ensure compliance of SOE Act in letter and spirit.

[DP Nos. 3236 & 3314]

2.1.4.25 Appointment of board members of SOE's subsidiaries without nomination by Federal Government

According to Section 10(2a) of SOE Act, 2023, the board nomination committee shall be responsible for identifying and recommending candidates to the Federal Government for appointment as independent directors which the Federal Government is empowered to appoint to boards. Additionally, as per clarification of Law and Justice Division issued vide letter dated January 17, 2024, if any subsidiary is directly or indirectly controlled and beneficially owned by a SOE which constitutes an agency of Government or such agency has not less than 51% voting securities or voting powers or has the power to elect, nominate or appoint its directors, the subsidiary falls under definition of a public sector company as defined in Section 2(54) of the Companies Act, 2017 and resultantly is a SOE itself as defined in the Act, 2023.

During audit of Petroleum Division for the FY 2023-24, it was observed that three SOEs i.e. SSGC, PSO, and PPL had established subsidiary companies and appointed members to the boards of these subsidiaries without approval or nomination from the Federal Government. Despite a clarification from the Law Division in January, 2024, Petroleum Division did not initiate the process of appointing board members for these subsidiaries. As a result, these companies were operating with unauthorized boards leading to inadequate oversight and accountability, exposing potential risks to the Government's interests in these subsidiaries.

Audit is of view that due to inadequate regulatory oversight resulted in unauthorized board appointments by SOEs in their subsidiaries.

The matter was reported to the management in October, 2024. In DAC meeting held on January 02, 2025, Petroleum Division stated that Ministry agreed with the view point of Audit and matter would be placed before BNC.

The DAC directed the management to take up the matter with relevant forum for nomination of BoDs of subsidiary companies by the Government

Audit recommends to take immediate action to ensure compliance with the SOE Act, 2023.

[DP No. 3238]

2.1.4.26 Delay in reconstitution of the SSGC Board by the Petroleum Division

According to Section 12(4) of SOE Act, 2023, an independent member shall not serve for more than nine years on a Board, and shall not be appointed to the same board after two consecutive terms unless a period three years has lapsed. Further Section 5(g) of SOE Act, 2023, the principle of protection of minority shareholders, according to which the government and the state-owned enterprise must recognize the rights of all shareholders and ensure all shareholders are treated equitably and have equal access to corporate information and the ability to nominate directors in a manner commensurate with their shareholding interest.

During audit of Petroleum Division for the FY 2023-24, it was observed that the management failed to finalize nominations for the Board of SSGC in a timely manner, resulting in a 24 months delay in the reconstitution of the Board. Federal Cabinet initially approved the nominations for the SSGC Board on August 9, 2023, upon recommendations of BNC, Petroleum Division issued a notification for the directorship election on August 17, 2023. However, the approved nominations were deficient, primarily due to selection of an independent director as Chairperson for two consecutive terms and the failure to adequately consider the rights of minority shareholders. In light of above, the directorship election was postponed. Subsequently, Petroleum Division directed SSGC to approach SECP to delay the elections for revisiting nominations regarding Chairperson and ensure fair competition for minority shareholders. These irregularities and inefficiencies in the nomination process led to a 24 months delay in reconstituting of SSGC Board.

Audit is of view that the weak oversight by the Petroleum Division and the BNC resulted in the deficient approval of nominations and caused significant delays in reconstituting the board.

The matter was reported to the management in October, 2024. In DAC meeting held on January 02, 2025, Petroleum Division stated that tenure of previous board expired in 2022. However, during caretaker period, the ECP imposed ban on the nomination of new boards. The summary for the constitution of Board of SSGC had been submitted to the Prime Minister for concurrence.

The DAC directed the management to submit a detailed report in chronological order for verification of Audit.

Audit recommends to take immediate action to ensure compliance of SOE Act, 2023.

[DP No. 3315]

2.1.4.27 Irregular nomination of Ex-Officio Directors on the Boards of Companies below BS-20

The Cabinet in its decision dated January 12, 2021 approved the alteration in the nomination of the Additional Secretaries (Policy) and (Admin) by inserting the phrase “Representative not below BS-20” to ensure the interchangeability of Officers of the Petroleum Division on the Boards of the Companies.

During audit of Petroleum Division for the FY 2023-24, it was observed that Corporate Affair Wing, Petroleum Division approved nomination of a BS-19 officer as ex-officio director on BoD of GHPL to represent the Government of KP in contravention of Federal Cabinet’s directive. Further, Petroleum Division did not take corrective action regarding withdrawal of a BS-19 and BS-18 officers as ex-officio directors on the BoDs of SML. This resulted in violation of Federal Cabinet’s directive.

Audit is of the view that non-compliance of Federal Cabinet decisions resulted in nomination of ex-officio directors on the BoDs of GHPL and SML below the rank of BS-20.

The matter was reported to the management in October, 2024. In DAC meeting held on January 02, 2025, Petroleum Division stated that regarding the nomination of provincial governments or other Division, they simply convey nominations of ex-officio directors.

The DAC directed the management to take corrective measures on the issues highlighted by Audit.

Audit recommends that decision of Federal Cabinet may be implemented in true letter and spirit.

[DP No. 3239]

2.1.4.28 Deficient composition of members of boards due to inadequate gender representation in SOE's boards

According to Clause 24(d) of SOE Ownership & Management Policy, 2023 issued by Finance Division in November, 2023, the BNC will ensure the compliance to the following guidelines for making a proposal for SOE Boards; adequate gender representation may be ensured when making nominations to the SOE Boards. Further, According to Clause 24 (third schedule read with Section 154(1) of the Companies Act, 2017, the company is required to have female representation on its board in the manner as specified under Regulations 23 of the Companies (General Provisions and Forms) Regulations, 2018 (Now under regulations 53 of the company's Regulations, 2024).

During audit of Petroleum Division for the FY 2023-24, it was observed that management reconstituted the boards of ISGS, SML and PSO without adhering to the Securities and Exchange Commission of Pakistan (SECP) regulations mandating the inclusion of at least one female director. Further, despite the subsequent enforcement of the policy, the Petroleum Division failed to take corrective action to appoint the female directors in these boards. As a result, the composition of the boards remained non-compliant with the gender diversity requirements, leading to a violation of the SOE Policy, 2023.

Audit is of view that as a result of weak regulatory oversight by the Secretary of the Petroleum Division and a lack of diligence on the part of the ex-officio members involved, led to the non-appointment of female directors to SOE boards.

The matter was reported to the management in October, 2024. In DAC meeting held on January 02, 2025, Petroleum Division stated that point raised by Audit had been noted for future compliance.

The DAC directed the management to ensure the compliance of SOE, Act and policies regarding nomination of female representative.

Audit recommends to take immediate steps to rectify the irregularities identified.

[DP No. 3237]

2.1.4.29 Weak regulatory oversight in monitoring of SOE / Companies' BoD

According to Section 19 of SOE Act, 2023, "the board shall ensure its obligations to shareholders of the state-owned enterprise are fulfilled and they are duly informed in a timely manner of all material events through shareholder meetings and other communication as necessary". Further, according to Section 29 *ibid*, the Federal Government shall exercise all the powers and rights that shareholders have in relation to the SOEs under the law or the constitution of the state-owned enterprise. Furthermore, according to Clause 16(e) of SOE Policy, 2023, the concerned Division will also be responsible for establish a rigorous performance monitoring mechanism to evaluate the performance of Board members.

During audit of Petroleum Division for the FY 2023-24, it was observed that management did not maintain or analyse the agendas of board meetings of the companies as a shareholder on behalf of Federal Government. Consequently, the Federal Government's interests in PSEs or companies where it holds minority shareholdings were not adequately safeguarded. Petroleum Division appointed ex-officio members to the boards of PSEs / companies to exercise shareholder rights on behalf of Federal Government. The ex-officio members acted as intermediaries between the company and Petroleum Division. However, Audit observed that there existed no formal process within Petroleum Division to convey Federal Government's stance to the ex-officio members. Moreover, Petroleum Division did not develop any Key Performance Indicators (KPIs) to evaluate the performance of the ex-officio members which showed lack of communication, increasing the risk of decisions that may not align with the Federal Government's interests.

Audit is of the view that non-compliance of SOE Act and Policy, 2023 resulted in non-establishment of rigorous performance monitoring mechanism to evaluate the performance of Board members.

The matter was reported to the management in January, 2025 but no reply was received till finalization of the para.

Audit recommends to ensure compliance of SOE Act and Policy, 2023 in letter and spirit.

[DP No. 3511]

Royalty Processing Charges Related Issues

2.1.4.30 Unconstitutional amendment in Rules and non-approval of Guidelines from Council of Common Interests

According to Article 161(1) read with Articles 78 & 162 of the Constitution of the Islamic Republic of Pakistan, the Royalty at the wellhead collected by the Federal Government, shall not form part of the Federal Consolidated Fund and shall be paid to the Province in which the well-head of natural gas is situated. Prior sanction of President of Pakistan to Bills affecting taxation in which Provinces are interested is mandatory. Further, according to NFC award 2010, Royalty on crude oil would be directly transferred to the Provinces. Moreover, according to Article 154 of the Constitution of Islamic Republic of Pakistan, 1973, the Council of Common Interests (CCI) is responsible to formulate and regulate policies in relation to the matters enumerated in Part-II of Federal Legislative List and exercise supervision and control over related institutions and its Section 2 is related to mineral oil and natural gas, liquids and substances declared by Federal law to be dangerously inflammable.

During Special Audit of DG (PC) for the FY 2014-15, it was observed that DG (PC) issued Pakistan Petroleum (Exploration and Production) Rules, 1986 and Pakistan Petroleum Royalty, Guidelines 2006 which were approved from the Finance Division to regulate the activities of E&P companies. The E&P companies were allowed benefits in the Pakistan Petroleum (Exploration and Production) Rules, 1986 by broadening the definition of wellhead value in Rule 2(k) by including gathering, processing, treatment, compression, dehydration and liquefaction costs whereas only transportation cost was allowed in all other Rules. The case in point is the Royalty paid by PPL and ENI where it was observed that due to change in the wellhead value, Government of Sindh was deprived of Rs 1,635.840 million on account of Royalty in one year only. Audit held that any change in E&P laws / rules and Guidelines which directly affected the payment of Royalty to the provincial governments needed prior sanction of President of Pakistan. Audit contended that since Royalty was to be transferred

directly to the provinces, thus, any guideline/(s) that affect the payment of Royalty to the province's required to be in consultation with provincial governments. Therefore, these guidelines should have been approved from the CCI being the appropriate forum with representation of all the Provinces and Federation.

Audit is of the view that non-adherence to the constitutional provisions rendered the change in E&P rules unconstitutional due to and approval of guidelines from the Finance Division which was not the competent forum for approving such matters, affecting the provincial interests.

The matter was reported to management in August 16, 2018. The DG (PC), in DAC meeting held on December 12, 2018, replied that the revised reply would be submitted to Audit and in DAC meeting held on August 06, 2019 explained that PCAs were signed on behalf of President of Pakistan. Therefore, there was no need to obtain the approval from the President of Pakistan. DAC directed DG (PC) to seek advice from Law Division. However, the DG (PC) vide its letter dated February 19, 2021 reiterated its previous stance that there was no need of clarification from Law Division and further stated that the CCI was constituted after 18th amendment i.e. on March 04, 2010 and there was no need for approval of Royalty Guidelines, 2006 from CCI at that time. The reply of the management was not tenable as the Royalty was to be transferred directly to the provinces and issuance of any rules and guideline(s) that affect the interest of the Provinces was required to be approved in consultation with the provincial governments. Further, the Article 154 of Constitution of the Islamic Republic of Pakistan clearly states that the Council of Common Interests (CCI) was responsible to formulate and regulate policies in relation to the matters enumerated in Part-II of Federal Legislative List. Therefore, these guideline were required to be got approved from CCI as the Provincial Governments were not consulted before approval of this guideline.

Audit recommends to solicit clarification from Law Division and that any change in the rules should be made with consultation of the provinces under the constitutional framework and get approval of guidelines from CCI to address the issues pertaining to provinces.

[AO No. 35/SAT-II]

2.1.4.31 Excess claim of RPC due to inconsistency between relevant Act and Guidelines

According to Clause 2 of Schedule of Regulation of Mines and Oil Fields and Mineral Development (Government Control) Act, 1948, in case of onshore discovery in Pakistan, Royalty shall be charged at a fixed rate of 12.5% of the wellhead value. The limit of the sum of the payment to the Federal Government shall be fixed at the time of grant of permit or license in accordance with the Petroleum Policy of the Federal Government from the effective date of permit as the case may be. Further, according to Clause 5.1.5 of Pakistan Petroleum Royalty Guidelines, 2006, total costs allowed for the year should not exceed total amount of the Royalty for the year.

During Special Audit of DG (PC) for the FY 2014-15, it was observed that PPL and ENI deducted RPC in excess of the amount of Royalty due for the period in violation of the above-mentioned guidelines. This resulted in excess claim of RPCs of Rs 32.010 million and Rs 553.000 million (US\$ 5.530 million @ Rs 100) respectively. Consequently, no Royalty was paid for the period which was in violation of Regulations of Mines and Oil Fields and Mineral Development Act.

Audit is of the view that the Guidelines were inconsistent with the Regulation of Mines and Oil Fields and Mineral Development (Government Control) Act, 1948 which resulted in loss of Royalty.

The matter was reported to management in August 16, 2018. DG (PC), in DAC meeting held on December 12, 2018, agreed that there was anomaly in the Clause No. 5.1.5. DAC directed the DG (PC) to explore the possibility of revisiting the Guidelines in order to identify and remove all anomalies. DAC in its meeting held on August 06, 2019 reiterated its earlier decision and directed the DG (PC) to get the anomaly removed within one month. No further progress was reported till finalization of the report.

Audit recommends to revise to Guidelines with a view to address the shortcomings.

[AO Nos. 6,7,8,9 & 10/FAT-IVK]

2.1.4.32 Short payment of Royalty due to excess adjustment against RPCs and doubtful amortization of expenses - Rs 2,446.836 million

According to Clauses 33 & 34 of Exploration and Production Rules, 1986, the holder of a license, along with application of lease, shall enclose a general plan for development and production comprising the design and location of production and transportation facilities and installations, including pipelines and storage installations as well as plans for the progress of the work and investment plans. Further, according to Clause 5.3 of Pakistan Petroleum Royalty Guidelines, 2006, only such depreciation amount will be allowable in the RPC which were charged against such capital costs that includes all those expenditures incurred on purchase and installation cost of plant, equipment and cost of building for gathering, treatment, processing, dehydration, compression, and liquefaction and transportation function.

During Special Audit of DG (PC) for the FY 2014-15, it was observed that the DG (PC) approved an Investment & Development Plan submitted by MOL that included US\$ 158 million as capital expenditure of TAL block with respect to Makori & Makori East (MGPF). Out of this, an amount of US\$ 31 million was allowed for facility and infield pipelines as capital expenditure. MOL, however, incurred an expenditure of US\$ 223.248 million as capital expenditure on facility and infield pipeline. These costs were subsequently claimed as RPC by MOL through amortization. Further, OMV charged RPC of US\$ 46.728 million on account of amortization of capital cost in respect of Saqib, Mehar, Miano, Sawan and Tajjal fields during financial year 2014-15. Further, the item wise detail of amortization was not provided. This resulted in doubtful charge of amortization due to non-availability of item wise record.

Audit is of the view that negligence of DG (PC) resulted in excess adjustment of US\$ 192.250 million against RPCs resulting in short payment of Royalty of Rs 2,446.836 million and doubtful charging of amortization as RPC.

The matter was reported to management in August 16, 2018. DG (PC), in DAC meeting held on December 12, 2018, provided the requisite record to audit for verification. DAC in its meeting held on August 06, 2019 directed the audit to submit verification report within one week so that DG (PC) could prepare justification of difference between field development plan and actual cost within one month. As per direction of DAC requisite verification report containing

detail of irregularities was provided to DG (PC) on August 08, 2019. No further progress was reported till finalization of the report. The matter was reported to Petroleum Division / DG (PC) in August 16, 2018.

Audit recommends to justify non-initiation of action against MOL for short payment of Royalty of Rs 2,446.836 million due excess adjustment of Rs 19,574.985 million. Audit further recommends to provide item wise record of capital assets to Audit for verification and improve monitoring by DG (PC).

[AO Nos. 37/SAT-II & AO No. 13/ SAT-III]

2.1.4.33 Inadmissible claim of operational expenditures as RPC – Rs 331.330 million

According to Clauses 5.1.1 and 5.1.6 of Pakistan Petroleum Royalty Guidelines, 2006, the costs incurred from the point of production (wellhead) to the point of sales will be classified as RPCs and the costs that occur “before the wellhead” are classified as production costs and are non-allowable. Further, according to Clause 10.01 of *ibid*, transportation charges include only charges for transport of petroleum. Furthermore, according to the Clause 5.2.2 of *ibid*, the operator of the lease will charge indirect costs up to maximum of 10% of actual direct costs incurred between the wellhead and the point of sales (excluding depreciation) for the activities of gathering, processing, treatment, transportation, compression, dehydration and liquefaction as applicable to the Petroleum produced and saved.

During Special Audit of DG (PC) for the FY 2014-15, it was observed that E&P companies i.e. OGDCL, OMV, MOL and POL incurred expenditure on wellhead facility, well maintenance, well operations and project personnel and claimed the same as RPCs. These companies claimed expenditures e.g. marriage contribution, business development fund, rotation awards, Eid bonus, third party field drivers, expatriate taxation, performance bonus, provident fund contribution, business travels etc. as direct cost which were not admissible as RPC. This resulted in short payment of Royalty of Rs 331.330 million.

Audit is of the view that weak monitoring by DG (PC) led to excess claims of RPCs and short payment of Royalty by Rs 331.330 million.

The matter was reported to management in August 16, 2018. DG (PC), in DAC meeting held on December 12, 2018, replied that an amount of Rs 48.723

million had been recovered from OGDCL and verified by Audit. The managements of MOL and POL were directed to deposit Rs 24.871 million and Rs 3.096 million respectively claimed on account of well operation and compensation paid to land owners respectively. DAC directed the management of companies involved to get the remaining amount of Rs 29.41 million verified for admissibility. DAC also directed DG (PC) to submit report on the contested outstanding amount regarding its admissibility or otherwise within one month. DG (PC) in its letter dated February 19, 2021 informed that MOL was contesting amount accrued on account of hotel charges, insurance, legal consultant fee, security and rent for transportation etc. The reply is not tenable as the Guidelines *ibid*, clearly state that transportation charges mean charges for transport of petroleum only. No further progress was reported till finalization of this report.

Audit recommends to recover of outstanding amount on account of Royalty from E&P companies besides improving monitoring by DG (PC).

[Annex-4]

2.1.4.34 Irregular adjustment of capital asset as operating expense after sale - Rs 69.160 million

According to Clause 10.01 of Pakistan Petroleum Royalty Guidelines, 2006, in case of loss or gain on disposal of capital assets those are retired and not replaced, a gain would be reported as a negative cost or incidental revenue and if the asset is replaced instead of retired, the gain or loss would be shown as an adjustment to capital cost instead of an operational cost.

During Special Audit of DG (PC) for the FY 2014-15, it was observed that MOL sold Makori-Kharappa pipeline in 2014 for Rs 69.160 million to SNGPL and sale proceeds were directly transferred to working interest owners. Audit contended that in sale of any capital assets, incidental revenue had to be adjusted in RPC as a negative cost while calculating the payment of Royalty as per guidelines issued by the DG (PC). This resulted in non-adjustment of sale proceeds/incremental revenue on sale of capital assets Rs 69.160 million.

Audit is of the view that lack of monitoring by DG (PC) resulted in non-adjustment of incremental revenue and payment of Royalty.

The matter was reported to management in August 16, 2018. DG (PC), in DAC meeting held on December 12, 2018, replied that the cost of the pipeline

was Rs 69.16 million, however at the time of disposal of pipeline, the book value of pipeline was Rs 31.217 million and sold to SNGPL at its book value therefore no profit and gain was recognized. DAC directed the management to get the record verified in support of their contention. The management, in DAC meeting held on August 06, 2019, produced sales record of pipeline for verification. DAC pended the para for verification by Audit. Audit held that despite the sale of pipeline on July 07, 2014 the management claimed initial cost of same pipeline as an operating expense in financial statements for the period December 31, 2014 of TAL block. This showed that RPC was also adjusted for initial cost of pipeline in 2014 whereas amortization of this capital asset was adjusted as RPCs since inception. The same fact was verified and verification report was provided to DG (PC) on August 09, 2019. No further progress was reported till finalization of the report.

Audit recommends that excess claim of RPCs by the company be recovered.

[AO No. 26/SAT-II]

2.1.4.35 Disproportionate allocation of RPC among petroleum products causing loss of Royalty

According to Clause 4.3.1(a) of Pakistan Petroleum Royalty Guidelines, 2006, except the leases granted pursuant to Rules 2001, if in addition to crude oil, condensate, natural gas and other Petroleum such as solvent oil, Sulphur, Liquefied Petroleum Gas (LPG), Natural Gas Liquid (NGL) and any other Petroleum are also extracted and produced, their wellhead value for the purpose of Royalty shall be, if sold in the national market, the wellhead value shall be the sale value actually realized, less costs of gathering, processing, treatment and transportation from the point of production (wellhead) to the point of sale.

During Special Audit of DG (PC) for the FY 2014-15, it was observed that MOL produced crude oil / condensate, natural gas and LPG from four leases i.e. Makori, Makori East, Manzalai and Mamikhal at two common processing facilities of CPF and GPF. Capital cost and operating cost were deducted as RPC from sales before payment of Royalty. It was noticed that natural gas worth Rs 6,236.079 million was sold and RPC amounting to Rs 1,434.427 million was deducted whereas LPG worth Rs 7,294.508 million was sold and RPC amounting to Rs 85.849 million was deducted. This showed that RPC was

deducted at the rate of 23% of sales value in case of natural gas and only 1.17% in case of LPG. Although a major portion of capital and operational costs i.e. liquefaction, dehydration and compression had been incurred for the extraction of LPG but these costs were being charged to crude oil disproportionately. Further, MOL adopted the method of equivalent production basis for segregation of capital cost and operating cost between crude oil, natural gas and LPG rather than to segregate these costs on actual basis. As a result, MOL was paying Royalty on LPG shrinkage value of gas i.e. Rs 281 million after adjustment of RPC, instead of actual sale value of LPG of Rs 7,295 million.

Audit is of the view that disproportionate allocation of operating and capital cost among crude oil, natural gas and liquefied petroleum gas resulted in loss of Royalty to the provincial government.

The matter was reported to management in August 16, 2018. DG (PC), in DAC meeting held on December 12, 2018, agreed with the audit point of view. DG (PC) further stated that the allocation of cost to all products on BoE basis was made due to design and integration of different units of the plants. For the company, it was practically impossible to separate the costs of different units / components. DAC directed DG (PC) to ensure allocation of costs as per actual basis. DAC in its meeting held on August 06, 2019 directed DG (PC) to submit revised reply with complete justification that cost allocation could not be done on actual basis as per decision of DAC dated December 12, 2018. No further progress was reported till the finalization of this report.

Audit recommends that actual capital and operating cost incurred to produce different petroleum products be allocated on actual basis and Royalty be paid accordingly.

[AO No. 38/SAT-II]

2.1.4.36 Non-compliance of the provisions of Pakistan Petroleum Royalty Guidelines, 2006 by E&P companies

According to Clause 6.1 of Pakistan Petroleum Royalty Guidelines 2006, each operator of E&P company shall prepare for every year RPC budget for the lease with complete details as part of the annual work programme and budget as per laid down schedule in PCA. Further according to Clause 6.3 and 6.4 of guidelines *ibid*, budget will be presented to DG (PC) with sufficient details allowing to review the RPC budget with reference to 12.5% impact on Royalty

payment to the Government and every month RPC budget vs actual comparison will be provided to DG (PC). Furthermore, according to Clause 5.1.1 of ibid, the costs whether these are operating costs or depreciation costs of facilities, must be actually incurred and is not the result of notional charge or estimates.

During Special Audit of DG (PC) for the FY 2014-15, it was observed that MOL, OGDCL, POL and OMV did not prepare and submit RPC budget with complete details as part of the annual work programme and budget. RPCs were claimed on notional basis. This showed non-compliance of provisions of Pakistan Petroleum Royalty Guidelines, 2006.

Audit is of the view that DG (PC) failed to implement the provisions of Pakistan Petroleum Royalty Guidelines, 2006.

The matter was reported to management in August 16, 2018. DG (PC), in DAC meeting held on December 12, 2018, replied that the companies would be advised to submit the requisite report on regular basis. DAC directed to initiate proceedings against persons responsible for non-compliance. DAC in its meeting held on August 06, 2019 reiterated its earlier decision dated December 12, 2018.

Audit recommends to improve monitoring and internal control mechanism.

[AO Nos. 01/SAT-I, 01, 02/SAT-II, 14 & 18/SAT-III]

2.1.4.37 Short payment of Royalty on condensate / crude oil by M/s MOL

According to the Rule 36(1) of the Pakistan Petroleum E&P Rules 1986, the holder of a lease shall pay a Royalty at the rate of 12.5% of the well head value of the Petroleum produced and saved.

During Special Audit of DG (PC) for the FY 2014-15, it was observed that MOL, operator of TAL block, paid Royalty on sale of condensate/crude oil of 4,219,833 BBL. The production data of LMKR, however, revealed that condensate/crude oil of 4,960,076 BBL was produced during the year. This showed variation of 740,243 BBL of condensate/crude oil between the quantities reported by LMKR and the quantity against which company paid Royalty. This resulted in short payment of Royalty on 740,243 BBL of condensate / crude oil.

Audit is of the view that short payment of Royalty on quantity produced and sold needs to be justified.

The matter was reported to management in August 16, 2018. DG (PC), in DAC meeting held on December 12, 2018, replied that it was agreed by all parties that Royalty was to be paid on quantity produced and saved and not on quantity sold. The management explained that there was an opening balance of crude oil plus crude oil produced and saved, and quantity of crude oil sold with a closing balance in hand and the closing balance was sold in the next year. DAC directed the management to provide month-wise production along with quantity sold data of one year prior to audit year and succeeding two years and get it verified from the audit within 30 days. DAC in its meeting held on August 06, 2019 expressed its displeasure over non-production/delayed production of record to the Audit for verification. DAC further, directed the management to get the requisite record verified from Audit as per decision of DAC dated December 12, 2018 within one week. No further progress was reported till finalization of the report.

Audit recommends that short payment of Royalty may be realized from the E&P company.

[AO No. 31/SAT-II]

Hydrocarbon Development Institute of Pakistan (HDIP)

2.1.4.38 Non-completion of project within stipulated period resulting in cost overrun - Rs 451.140 million

According to Para 3.20 of Guidelines for Project Management issued by Project Wing, Planning Commission Government of Pakistan, “the Project Director should be delegated full administrative and financial powers and be made accountable for any lapses. This measure would improve management and help fix technical and financial responsibility”.

During audit of HDIP for the FY 2022-23, it was observed that CDWP in its meeting held on May 02, 2018 approved PC-I of PSDP project titled “Expansion and Up-gradation of Pakistan Petroleum Core House (PETCORE) for its sustainable operations to facilitate Oil & Gas Exploration Research in Pakistan” at a cost of Rs 367.860 million. The completion period of project was three years to be completed in June, 2022. However, only Rs 28.002 million could be utilized on salaries and other expenses up to June, 2022. No amount was utilized on construction of building and purchase of lab equipment despite the fact that government allocated the required budget which was surrendered by

the management. The construction of Lab could not be started. The revised PC-I was again submitted and approved in CDWP meeting held on May 11, 2022 with a revised cost of Rs 819.000 million without any change in scope of work. In revised PC-I, cost of civil work increased from Rs 75.782 million to Rs 348.000 million whereas cost for purchase of equipment enhanced from Rs 186.543 million to 322.253 million. This resulted in overall increase in cost of project of Rs 451.140 million.

Audit is of the view that due to mismanagement of project, it could not be completed resulting in cost escalation of Rs 451.140 million.

The matter was reported to the management in April, 2024. The management in its reply dated June 03, 2024 stated that the implementation of PSDP project was delayed due to non-renewal of lease agreement of HDIP Plot from CDA since 2012 and non-approval of building plan of all three blocks of HDIP. After resolution of lease issue, tenders for construction of building were floated in 2021. However, due to inflation, the rate quoted by the contractor was higher than PC-I. Consequently, the PC-I was revised to Rs 819.102 million. The reply was not tenable as no action was taken against the person(s) responsible for non-renewal of lease and building plan of HDIP building which caused delay in implementation of PSDP project and cost overrun of Rs 451.140 million. Further, the management failed to complete the project during extended period i.e. up to June, 2024.

The DAC in its meeting held on December 26, 2024 directed the management to conduct fact finding inquiry to identify the person at fault and share the outcome within two months. No further progress was intimated till finalization of the Report

Audit recommends to fix responsibility for non-renewal of lease of plot with CDA and non-completion of project on time causing immense cost overrun.

[DP No. 2817]

2.1.4.39 Less revenue collection due to poor project planning – Rs 54.250 million

According to Para 3.20 of Guidelines for Project Management issued by Project Wing, Planning Commission, Government of Pakistan, “the Project Director should be delegated full administrative and financial powers and be

made accountable for any lapses”. Further, as per Para 5.2(iv) and 11.1 of PC-I for Up-gradation of POL Testing Facilities of HDIP, “the objective of project is to develop LPG testing facilities for LPG being imported from Iran through Taftan Border”. The establishment of LPG testing lab will result in revenue generation @ Rs 52.80 million per annum. Furthermore, as per PC-I of KLC project, the revenue generation from LPG testing was estimated to Rs 2.500 million per annum.

During audit of HDIP for the FY 2022-23 it was observed that the management dropped the idea of establishment of LPG testing Lab at Taftan border and lab was shifted to Quetta without revised PC-I and feasibility regarding tests to be performed and revenue estimation. The management purchased LPG Lab equipment of Rs 19.354 million. As per PC-I, the estimated revenue generation from LPG Lab was Rs 52.80 million per annum but only Rs 0.330 million was collected from testing of LPG product during 2022-23. This resulted in less collection of Rs 51.750 million. Further, the management purchased LPG testing equipment of Rs 16.187 million for KLC project during 2021-22. As per PC-I, the estimated revenue generation from LPG Lab was Rs 2.500 million but no LPG testing was performed during 2022-23. This resulted in non-generation of estimated revenue of Rs 2.50 million.

Audit is of the view that poor project management resulted in preparation of defective PC-I which resulted in non-achievement of desired revenue.

The matter was reported to the management in April, 2024. The management in its reply dated June 03, 2024 stated that Petroleum Division requested HDIP for establishment of lab at Taftan Border. However, OGRA did not issue NOC to HDIP. Keeping in view the above position and to save against the lapse of PSDP budget, HDIP decided to procure LPG equipment by the end of POL project. All equipment was temporarily installed at HDIP PTC Quetta Centre. As far as the LPG testing at Karachi was concerned, OGRA assigned the work to a private 03rd Party Inspector. The reply was not tenable as decision for shifting of LPG Lab was made without any detailed feasibility. Further, the bidding documents for LPG testing at Karachi were not properly submitted which resulted in rejection of the same by OGRA.

The DAC in its meeting held on December 26, 2024 directed the management to take action against the person responsible and get the PC-IV

approved by the competent authority. No further progress was intimated till finalization of the Report.

Audit recommends to fix responsibility for poor project planning and failure to take measures to operate lab with full capacity.

[DP No. 2824]

2.1.4.40 Wasteful expenditure on non-operative CNG stations - Rs 39.548 million

According to Agenda Item No. 4 of Para 4.5 of 29th Meeting of Board of Governors (BoG) held on August 27, 2020, Chairman directed that staff deputed at CNG stations may be offered golden handshake and their services may be dispensed of, as the CNG stations are totally in loss as compared to its revenue and expenditure. BoG further decided to refer the matter to Administration and Finance (A&F) Committee for making comprehensive proposals (ToRs) and recommendations, keeping in view the valuation of CNG stations, land(s), capital income, cash flow, net income, utilization or dispensing of existing manpower/ employees at CNG stations with financial impact. BOG also directed HDIP management to consult reputable Chartered Accountant firm and also provide all necessary input and assistance to Admin and Finance Committee.

During audit of HDIP for the FY 2022-23, it was observed that HDIP incurred expenditure of Rs 39.626 million on account of pay of staff, lease rent, and utility charges in respect of three CNG stations located at Lahore, Quetta and Islamabad. These CNG stations remained non-operative during 2022-23. Only sale of Rs 0.077 million was reported from CNG station Islamabad. The management neither offered any golden handshake plan to staff of CNG stations nor took measures to utilize the services of staff anywhere else. The major portion of expenditure i.e. Rs 21.396 million was spent on employee related expenditure. The consultant firm hired also recommended outsourcing of CNG stations but no action was taken by the management. Incurring of expenditure at non-operative CNG stations resulted in loss of Rs 39.548 million.

Audit is of the view that negligence of management resulted in non-operation / improper management of CNG stations causing loss of Rs 39.548 million.

The matter was reported to the management in April, 2024. The management in its reply dated June 03, 2024 stated that CNG stations remained closed due to Gas load management by SNGPL. During the closure of CNG stations the staff was utilized at other HDIP units for optimum utilization but their expenses were made from their respective parent units. The reply was not tenable as the decision of BoG was not implemented. Further, no orders for placement of staff to other units were provided to Audit.

The DAC in its meeting held on December 26, 2024 directed the management to get the stated stance verified by Audit. DAC further directed to get the expenditure regularized from competent forum. No further progress was intimated till finalization of the Report

Audit recommends to fix responsibility for poor management besides taking steps, either to make the CNG stations operational or outsource the same.

[DP No. 2807]

2.1.4.41 Non-recovery of sample testing / inspection fee – Rs 32.190 million

According to Section 9(f) of HDIP Act, 2006, “the fund of the institute shall consist of fee and charges for the services rendered”.

During audit of HDIP for the FY 2022-23, it was observed that different Oil Marketing and lubricant companies got sample testing amounting to Rs 25.595 million from HDIP Labs located at Islamabad, Lahore, Multan, Peshawar, Karachi and Quetta. However, neither payment against testing was made by OMCs nor action taken by the management to recover the same. Further, HDIP conducted pre-commissioning, annual inspection, re-inspection and inspection (enforcement) as assigned by OGRA during FYs 2007-2008 to 2022-23. But OGRA did not pay an inspection fee of Rs 6.595 million despite a lapse of up to 16 years. This resulted in non-recovery of testing / inspection fee of Rs 32.190 million.

Audit is of the view that weak financial management led to non-recovery of testing / inspection fee amounting to Rs 32.190 million.

The matter was reported to the management in April, 2024. The management in its reply dated June 03, 2024 stated that recovery of Rs 4.974 million had been made out of which a recovery of Rs 4.679 million had been verified by Audit. Recovery of remaining amount was in process.

The DAC in its meeting held on December 26, 2024 reduced the para to the extent of recovered and verified amount and directed the management to expedite the recovery of balance amount. DAC further directed to share the profit and loss account statements with audit. No further progress was intimated till finalization of the report.

Audit recommends to expedite the recovery of balance amount

[DP Nos. 2806, 2808 & 2812]

2.1.4.42 Wasteful expenditure on salaries of project staff – Rs 14.895 million

According to Para 3.20 of Guidelines for Project Management issued by Project Wing, Planning Commission Government of Pakistan, “the Project Director should be delegated full administrative and financial powers and be made accountable for any lapses”. Further, according to Clause 6.3.3 of PC-I, “HDIP has elaborated managerial setup to tackle and resolve any technical issue which may crop up during execution and implementation of the project. No specific problem is anticipated except the shortage of trained manpower which will be resolved by induction of new technical human resource and training of existing geoscientists and support staff”.

During audit of HDIP Islamabad for the FY 2022-23 it was observed that Project Director PETCORE appointed Principal Petroleum Geologist, sedimentologist, lab technician and lab attendant from the budget of PETCORE project. The staff was hired to perform duties in the lab to be established under the project for research and development activities. An amount of Rs 14.895 million was paid on account of salaries to these staff but the staff resigned from duties before completion of the project, even before establishment of Lab for which they were appointed. The purpose of induction of new technical human resource could not be achieved. This resulted in wasteful expenditure of Rs 14.895 million.

Audit is of the view that due to poor project management, staff was appointed even before establishment of Lab, paid handsome salaries but they left the organization before completion of project, hence the entire expenditure was held wasteful.

The matter was reported to the management in April, 2024. The management in its reply dated June 03, 2024 stated that individuals were not

obligated to work in the project until its completion. According to Clause (xi) of appointment letter, the appointment during the period of contract shall be liable to termination on 30 days' notice on either side or payment of one month's salary in lieu thereof, without assigning any reason. The reply was not tenable as project employees were hired even before construction of building and procurement of lab equipment and they left the job without performing the tests and research work, thus the salaries were held wasteful.

The DAC in its meeting held on December 26, 202 observed that proper precautions were not taken by the management in order to safe guard the contract agreement with respect to the employees allowing them to leave the organization before the completion of the project. DAC directed the management to identify the persons responsible for the imprudent decision. No further progress was intimated till finalization of the Report.

Audit recommends to fix responsibility for wasteful expenditure.

[DP No. 2821]

Department of Explosives

2.1.4.43 Unauthorized import of vinyl acetate and non-imposition of penalties - Rs 498.530 million

According to Rule 14(3)(a) of amendment of Section 23, Act XXX of 1934, illegally imports, transport, stores, sales produce, refines or blends any petroleum shall be punishable with the fine which may extend to one million rupees. Further, according to the Rule 14(3)(b) of the rules ibid, if any person, having been, convicted of an offence punishable under sub-section 3(a), is again guilty of any offence punishable under that with fine which may extend to five million rupees.

During audit of Department of Explosives for the FY 2023-24, it was observed that in 120 cases of import of Vinyl Acetate by three importers, imported higher quantity than allowed in their licenses. However, the department failed to notice this irregularity on part of the licensees. Furthermore, the Explosives Department failed to monitor the import of dangerous petroleum products. This resulted in non-imposition of fine and penalties amounting to Rs 498.530 million.

Audit is of the view that due to lack of monitoring and oversight the excess quantity of vinyl acetate was imported.

The matter was reported to the management in September, 2024. The management in its reply dated December 23, 2024 stated that all imports including chemicals, i.e. Vinyl Acetate Monomer (VAM) etc. were released by Customs Department at entrance points i.e. ports or borders or dry ports. In the instant cases the Customs Department did not communicate details at the time of import. This lack of information-sharing hindered management's ability to monitor compliance effectively.

The DAC in its meeting held on December 27, 2024 directed the management to devise a mechanism for effective coordination amongst various stakeholders to have an effective control on unauthorized import beyond approval of licensing Authority.

Audit recommends to recover the amount pointed out besides taking action against the licensees.

[DP No. 2969]

2.1.4.44 Non-realization of revenue due to non-renewal of licenses fee - Rs 108.414 million

According to Rule 119(1) of Petroleum Rules, 1937 a license may be renewed by the authority empowered to grant such a license, provided that a license which was granted by the Chief Inspector of Explosives may be renewed without alteration by an Inspector of Explosives duly authorized by the Chief Inspector in this behalf. Further, according to the Rule 119 (3) of the rules *ibid*, the same fee shall be charged for the renewal of license as for the grant thereof, provided that if the application for renewal is not received within the time specified in sub-rule (2), the license shall be renewed only, on payment of double the fee ordinarily payable for the license.

During audit of Department of Explosives for the FY 2023-24, it was observed that the department did not recover the renewal of licenses fee from various companies on expiry of licenses. The department neither took any action to cancel the licenses nor provided the updated status of retail outlets whether these retail outlets were operational or closed. This resulted in non-realization of renewal fee of Rs 108.414 million.

Audit is of the view that weak monitoring system of the department led to non-realization of renewal fees.

The matter was reported to the management in September, 2024. The management in its reply dated December 23, 2024 stated that they had requested the concerned District Authorities to seal the premises of expired licensees. It was further stated that the Petroleum Rules, 1937, did not provide any Clause for the cancellation of already expired license as in both the cases i.e. cancellation / expiry district authority was requested for the sealing of the premises. A fresh license in lieu of an expired one could only be granted upon the payment of a fee equal to three times the ordinary license fee, along with an additional fee equal to the license fee for each year or part thereof during which the license remained expired.

The DAC in its meeting held on December 27, 2024 directed the management to submit reply on case-to-case basis within a week.

Audit recommends to recover the amount pointed out by audit.

[DP No. 2974]

2.1.4.45 Un-authorized construction of storage facility by M/s Pakistan Oxygen

According to Rule 155 of Mineral and Industrial Gases Safety Rules 2010, no person shall fill any cylinder, vessel, and container with compressed gas and no cylinder, vessel and container filled with compressed gas shall be possessed by anyone except under and in accordance with the conditions of a license granted under these rules.

During audit of Department of Explosives for the FY 2023-24, it was observed that M/s Pakistan Oxygen (formerly Linde Pakistan Limited), applied for a GC-5 license from the Department of Explosives on November 16, 2020. However, it was noticed that the company had already constructed storage facility without prior approval from the department and ignored safety regulations, which resulted in non-issuance of the license despite lapse of four years. The Department of Explosives neither took any action against the company nor imposed any fines or penalties.

Audit is of the view that the department failed to enforce regulatory compliance, allowing the company to bypass safety regulations and other statutory requirements.

The matter was reported to the management in September, 2024. The management in its reply dated December 23, 2024 stated that regional office in Karachi had issued the sealing order to halt all operations at the premises.

The DAC in its meeting held on December 27, 2024 directed the management to follow up the matter with District Administration for sealing of premises.

Audit recommends to implement the decision of DAC.

[DP No. 2986]

2.1.4.46 Non-existence of mechanism to oversee the sale of imported calcium carbide - Rs 2,372.140 million

According to para 2 of Conditions of License to store carbide of calcium, subject to the provisions of Rules 19(3) and 21, licensee shall not deliver any quantity of carbide of calcium exceeding twenty-eight pounds to anyone who has not a license to store carbide of calcium or any quantity of carbide of calcium exceeding half a pounds, except in accordance with the rules as to the manner in which the carbide is to be packed.

During audit of Department of Explosives for the FY 2023-24, it was observed that the Department of Explosives issued licenses for the storage and import of calcium carbide. However, according to the conditions of the aforementioned license, the licensee was prohibited from delivering more than twenty-eight pounds of calcium carbide to any individual who did not possess a valid storage license. In this regard, the Department of Explosives neither maintained record of such transactions nor required licensees to report on the sale or delivery of calcium carbide valuing Rs 2,372.140 million.

Audit is of the view that absence of any mechanism to oversee the sale of imported calcium carbide showed poor monitoring and weak internal controls of the department.

The matter was reported to the management in September, 2024. The management in its reply dated December 23, 2024 stated that letters had been issued to the licensees to submit the data regarding the import and sale of

calcium carbide and if there were any discrepancy or non-compliance strict action including the cancellation of license would be taken.

The DAC in its meeting held on December 27, 2024 directed the management to pursue the matter with quarter concerned vigorously.

Audit recommends to justify non-maintaining of record of calcium carbide and lack of a procedure to monitor compliance of license conditions.

[DP No. 3037]

2.1.4.47 Non-levy of fine and penalties on illegal operation of retail outlets - Rs 76 million

According to sub-section 3(a) of amendment of Section 23, Act XXX of 1934, “illegal imports, transports, stores, sales produce, refines or blends of any petroleum shall be punishable with the fine which may extend to 1 million rupees”.

During audit of Department of Explosives for the FY 2023-24, it was observed that there were 76 retail outlets which were operating without approval from the DoE. It was also observed that there was no timeline for making a decision on the application for construction approval. Audit identified a case where the application for construction approval for one retail outlet was submitted on September 9, 1999 but no decision was found on record regarding this application. This resulted in illegal activities and loss to public ex-chequer on account of renewal fee and imposition of fines and penalties of Rs 76 million.

Audit is of the view that weak management resulted in operation of retail outlets without approval.

The matter was reported to the management in September, 2024. The management in its reply dated December 23, 2024 stated that department imposed penalty required under Petroleum Act, 1934, on the sites which were operational without construction approval.

The DAC in its meeting held on December 27, 2024 directed the management to get the record verified on case-to-case basis. DAC further directed to reconcile the number of outlets with OMCs. No further progress was reported till finalization of the report.

Audit recommends to impose fine and penalties on illegal operation of retail outlets. Audit also recommends to introduce a timelines for making decision on the request from the applicant.

[DP No. 3038]

2.1.4.48 Ambiguous sales of explosives by M/s Wah Associates

According to Rule 84 of Explosive Rules, 2010 the licensee of a magazine or store house or a factory shall keep up-to-date records in the prescribed form and produce the same before an inspecting officer. Such records shall be retained for a period of not less than three years. The licensee shall submit to the Chief Inspector, Inspector of Explosives having jurisdiction and concerned district authority, a report showing manufacture, purchase, possession, sale, use, theft and destruction of explosives at the end of each fortnight on the Forms as set out under Schedule V. Further, as per job description issued by the Department of Explosives, the Inspector of Explosives (re-designated as Assistant Director) is authorized to examine the fortnightly returns of Explosives.

During audit of Department of Explosives for the FY 2023-24, it was observed that the fortnightly returns of M/s Wah Associates consistently showed sales of explosives to M/s Wah Nobel throughout the year. However, M/s Wah Nobel's fortnightly returns did not reflect any receipt of explosives from M/s Wah Associates. This raised risk of illegal sale of explosives.

Audit is of the view that weak monitoring resulted in unaccounted for and irregular sales of explosives.

The matter was reported to the management in September, 2024. The management in its reply dated December 23, 2024 stated that an explanation / clarification letter had been issued in this regard. The reply of the explanation was still awaited and would be shared with Audit. Further, if the company fails to provide satisfactory explanation, then action would be taken under Rule 131(c) of Explosives Rules, 2010.

The DAC in its meeting held on December 27, 2024 directed the management to pursue the matter vigorously.

Audit recommends that the license of M/s Wah Associates be suspended or cancelled until a detailed investigation and reconciliation of all explosives manufactured, sold, and purchased are conducted.

[DP No. 3043]

2.1.4.49 Non-inspection of bulk storage sites for petroleum products and non-renewal of Form-L - Rs 60 million

According to Rule 13(1) of Petroleum Rules 1937, the Central Government may authorize any officer by name or by virtue of office to enter any place where petroleum is being imported, stored, produced, refined or blended, or is under transport, and inspect all receptacles, plant and appliances used in connection with petroleum in order to ascertain if they are in accordance with the provisions of this Chapter and the rules made there under. Further, according to Rule 119(1) of Rules *ibid*, a license may be renewed by the authority empowered to grant such a license, provided that a license which was granted by the Chief Inspector may be renewed without alteration by an Inspector of Explosives duly authorized by the Chief Inspector in this behalf.

During audit of Department of Explosives for the FY 2023-24, it was observed that 110 Forms-L had lost their validity from January 1, 2019 to January 01, 2024. The department did not inspect the locations nor renewed the expired licenses from 2019 to 2024. The department neither took any action to cancel the licenses nor provided the updated status whether these were operational or closed. This resulted in illegal storage of petroleum products and non-realization of renewal fee amounting to Rs 60 million.

Audit is of view that poor financial management and weak internal controls resulted in non-recovery of Rs 60 million.

The matter was reported to the management in September, 2024. The management in its reply dated December 23, 2024 stated that as per Rule 119(2) of Petroleum Rules, 1937, premises for which renewal fee was submitted, were considered as renewed, and same could not be cancelled on submission of renewal particulars.

The DAC in its meeting held on December 27, 2024 directed the management to share the updated position with Audit. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 3044]

2.1.4.50 *Unjustified grant of License on Form-R without holding license for transporting LPG through road bowsers from OGRA*

According to Rule 3 of Liquefied Petroleum Gas (Production and Distribution) Rules, 2001, no company shall, without first obtaining a license for the purpose from the OGRA, undertake or cause to be undertaken under any agreement, the construction and operation or construction of any works and transportation of LPG or LPG refuelling station.

During audit of Department of Explosives for the FY 2023-24, it was observed that the Department of Explosives had issued licenses on Form-R to companies and individuals who did not possess the requisite OGRA license for the transportation of Liquefied Petroleum Gas (LPG) through road bowsers. This discrepancy raised concerns regarding regulatory compliance and safety.

Audit is of the view that due to weak regulatory oversight and lack of coordination, the Department of Explosives issued licenses (Form-R) for LPG transportation in the absence of OGRA's license.

The matter was reported to the management in September, 2024. The management in its reply dated December 23, 2024 stated that license in Form-R under Mineral Industrial Gases Safety Rules, 2010 was granted for the transportation of LPG on road through mechanically propelled vehicle.

The DAC in its meeting held on December 27, 2024 directed the management to seek clarification from OGRA. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 3045]

Geological Survey of Pakistan (GSP)

2.1.4.51 *Un-authorised utilization of project funds – Rs 42.169 million*

According to Clause 10.4.6.1 of Accounting Policies and Procedures Manual, the progress of each development project should be regularly monitored against budget by the project manager. The project manager is responsible for advising the government and the sponsoring agency on the overall progress of

the project and any significant deviations from the original budget and project plan.

During audit of GSP for the FY 2023-24, it was observed that the management initiated a Toposheets Project with approved budget of Rs 127.595 million including the establishment charges of Rs 62.595 million. The management utilized Rs 51.764 million from the funds allocated for establishment charges. Audit observed that from budget allocated for establishment charges an amount of Rs 42.169 million was utilized by procuring goods for GSP office and DG Guest House, which was outside the scope of project. This resulted in un-authorised utilization of project funds of Rs 42.169 million.

Audit is of the view that weak financial management resulted un-authorised utilization of project funds.

The matter was reported to the management in September, 2024. The management in its reply dated December 5, 2024 stated that the project was completed without any cost escalation. The reply was not tenable on the ground that management spent Rs 42.169 million on the objects that were outside the scope of the project.

The DAC in its meeting held on January 10, 2025, directed the management to submit a detailed reply specific to the audit para besides taking action against person(s) responsible. No further progress was reported till finalization of the report.

Audit recommends to look into the matter besides fixing responsibility on the person(s) at fault.

[DP Nos. 3012 & 3029]

2.1.4.52 Loss due to delayed clearance of imported equipment and excess payment of storage charges - Rs 9.357 million

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

During audit of GSP for the FY 2023-24, it was observed that the management imported GNSS equipment for Geo Hazard project, Islamabad of

Rs 122.789 million but when the consignment arrived at the port, the management came to know that they needed an NOC from PTA which took time. Further, the management applied for exemption of duty and taxes which was also not allowed by the Customs Authorities. Moreover, CAO office raised queries on the bills of the consignment. Due to seeking of NOC and addressing the queries of CAO office, the imported consignment could not be cleared in time and duty and taxes increased due to higher rate of exchange and payment of storage charges. This resulted in loss due to delayed clearance of imported equipment and excess payment of storage charges of Rs 9.357 million.

Audit is of the view that poor procurement management resulted in unjustified expenditure on account of clearance and storage charges.

The matter was reported to the management during September, 2024. The management in its reply dated December 5, 2024 stated that the delay was due to obtaining of NOC and late clearance of cheque by the CAO office. The reply was not tenable as the management was ignorant that they would need an NOC for clearance of imported equipment which took time due to which duty and taxes increased due to higher exchange rate and GSP have to pay storage charges for over stay of imported consignment.

The DAC in its meeting held on January 10, 2025 directed the management to identify the person(s) responsible for loss to the national exchequer and initiate disciplinary proceedings. No further progress was reported till finalization of the report.

Audit recommends to probe the matter and action be taken against the person(s) at fault as per decision of DAC.

[DP No. 3008]

2.1.4.53 Short deposit of income tax by the employees of GSP - Rs 4.893 million

According to Section 149(1) of the 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 clause (2) of Part-III, Second Schedule to the Income Tax Ordinance 2001. “the tax payable by a full-time teacher or a researcher,

employed in a non-profit educational or research institution duly recognized by HEC, a Board of Education or a University recognized by the HEC, including government research institution, shall be reduced by 25% of tax payable on his income from salary.

During audit of GSP for the FY 2023-24, it was observed that in 125 cases, officers of the GSP paid income tax at reduced rate of 25%. The RTO Peshawar vide clarification dated June 22, 2024 ordered that employees of GSP claiming to be “Researchers” failed to produce corroborative evidence that they were full-time researchers, hence, such employees were not entitled to the tax rebate. Moreover, in 24 other cases, the officers of the GSP deposited less amount of income tax because the amount of additional charge allowance was not included in the taxable income. This resulted in short deposit of income tax amounting to Rs 4.893 million.

Audit is of the view that due to weak financial controls income tax was short deposited by the officers of GSP.

The matter was reported to the management in September, 2024. The management in its reply dated December 5, 2024 stated that recovery of income tax on charge allowance was under process. Further, in respect of 25% rebate it was informed that rebate was allowed by the DC Inland Revenue, Withholding Tax Unit, RTO Quetta vide orders dated 19.11.2013. Audit contended that the RTO Peshawar, vide clarification dated June 22, 2024 had declared that the GSP employees were not entitled to the income tax rebate.

The DAC in its meeting held on January 10, 2025, directed the management to recover the amount of Rs 1.479 million and deposit the same in the Treasury. DAC further directed the management to come up with a comprehensive response in respect of tax rebate matter. No further progress was reported till finalization of the report.

Audit recommends that the amount pointed out may be recovered from the concerned.

[DP Nos. 3014 & 3017]

2.1.4.54 Non-preparation of quantifiable medium-term and yearly targets against the activities as per approved Charter of GSP

According to Charter of GSP, approved by Petroleum Division on October 24, 1991, “the Geological Survey of Pakistan is responsible for the

study of the geology of the country in detail, and to assess its resource potential. It shall undertake geological mapping and geoscientific surveys, basic and applied research and environmental investigations for an accurate understanding of the country's geologic resource and its prudent management.

During audit of GSP for the FY 2023-24, it was observed that as per charter of GSP, there was a list of functions and activities containing 15 points, in addition to the sphere of activities for GSP's Divisional Offices to achieve the objectives. The quantifiable targets against each activity, commensurate with the human and financial resources of the department were not prepared and got approved by the Administrative Ministry. In the absence of such medium-term and yearly targets, optimum utilization of government resources and effective monitoring was not possible.

Audit is of the view that due to weak operational controls, the GSP failed to prepare quantifiable yearly targets to achieve its objectives.

The matter was reported to the management in September, 2024. The management in its reply dated December 26, 2024 stated that an appraisal of GSP had been conducted in the recent past with an objective to restructure the organization and the points raised by Audit would be addressed during the restructuring process.

The DAC in its meeting held on January 10, 2025 directed the management to come up with the comprehensive response to the para. No further progress was reported till finalization of the report.

Audit recommends to take necessary steps to set the short-term and long-term targets for each of the approved technical activities / functions of GSP in order to achieve the core objectives of the GSP.

[DP No. 3033]

***2.1.4.55 Unjustified expenditure on the basis of ambiguous documents
Rs 3.663 million***

According to Section 23 of Sales Tax Act, 1990 "a registered person making a taxable supply shall issue a serially numbered tax invoice at the time of supply of goods containing the following particulars namely name, address and registration number of the supplier and recipient, date of issue of invoice,

description and quantity of goods, value exclusive of tax, amount of sales tax and value inclusive of tax.

During audit of GSP for the FY 2023-24, it was observed that GSP purchased store items and other accessories for Rs 2.782 million from M/s Global Network who issued ten sales tax invoices without mentioning dates. Moreover, two invoices bearing numbers 00103 and 00051 were issued twice and thrice respectively, however, instead of raising query, the DDO made payments against these ambiguous invoices. In another case, payments of Rs 0.881 million were made against ambiguous documents. This resulted in unjustified expenditure on the basis of ambiguous documents amounting to Rs 3.663 million.

The matter was reported to the management in September, 2024. The management in its reply dated December 5, 2024 stated that payments of Rs 0.881 million were made as per claims of officers/vendor and for M/s Global Network it was replied that 1/5th of the Sales Tax amount was deducted at source by the department while the vendor deposited the remaining 4/5th Sales Tax amount. Reply was not tenable as the para was regarding duplicate invoices of sales tax and ambiguous documents against which payments were made.

The DAC in its meeting held on January 10, 2025, in case of Rs 0.881 million directed the management to conduct fact-finding inquiry and report to Audit within two months while for sales tax invoices, DAC directed the management to submit a revised reply. No further progress was reported till finalization of the report.

Audit recommends to probe the matter and fix responsibility on the person(s) at fault besides providing the complete record of sales tax matter.

[DP Nos. 3013 & 3023]

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. The company is engaged in exploration and development of oil & gas resources, production and sale of oil & gas and related activities. OGDCL is registered with Pakistan Stock Exchange and London Stock Exchange. GoP holds directly and indirectly 85.02 % of the paid-up capital of the company as on June 30, 2022.

(B) Operational and Financial Performance

Exploration, Production and Financial performance of the OGDCL during the FY 2023-24 is given below:

i. Exploration and Drilling Activities

Name of Activity	2023-24	2022-23	2021-22	2020-21
Oil and Gas Discoveries	5	3	7	6
Exploration Licenses	59	57	57	59
Development & Production Lease	97	77	77	77
2D Seismic Survey-Line KM	1,410	1,804	2,003	2,539
3D Seismic Survey-Line KM	1,150	765	601	600
Total Seismic Survey	2,560	2,569	2,604	3,139
Wells Drilled (Exploratory / Appraisal, Development)	13	10	7	20
Cost of Dry & Abandoned Wells (Rs in million)	0.402	7,161	7,657	8,373
Prospecting Expense	12,159	11,861	7,929	8,994
Exploration and Prospecting Expenditure (Rs in million)	12,159	19,022	15,586	17,367

ii. Financial Performance

Quantity sold		2023-24	2022-23	2021-22	2020-21
Crude Oil	'000' BBLs	11,810	11,854	12,528	13,230
Gas	MMCF	262,520	278,860	301,286	317,443
LPG	M. Tons	263,291	262,800	294,619	293,310
Sulphur	M. Tons	5,620	10,585	15,800	24,000
Financial Results		(Rs in Billion)			
Net Sales		463,698	413,594	335,460	239,100

Other Revenues	41.344	154.692	50.690	20.270
Trade-debt	635.016	576.968	456.594	358.821
Overdue amount - Circular Debt	561.025	510.849	393.170	303.853
Profit before Taxation	397.787	383.772	232.520	128.990
Profit for the Year	208.976	224.617	133.780	91.530

(Source: Annual Audited Accounts)

iii. Non-achievement of operational targets

Activity / Description	UoM	2023-24			2022-23		
		Targets	Achieved	% age	Targets	Achieved	% age
2D & 3D Seismic Survey	Line Kms	2,960	2,560	86	3,150	2,569	82
Outsourced Survey		-	-		150	-	0
Total Survey		2,960	2,560	86	3,300	2,569	79
Wells Drilled	No.	16	13	81	24	10	42
Net Oil Production	BOP D	37,875	33,479	88	37,530	31,320	83
Net Gas production	MMC FD	816	717	88	890	764	86

2.2.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 716,216.077 million were raised during the current audit of OGDCL. This also includes recoverable amount of Rs 635,110.699 million. 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 & Production Management Related Issues	22,701.476
B	Financial Management	677,329.991
C	HR Related Issues	23.460
D	Procurement & Store Management	3,207.566
E	Exploration & Drilling Management	1,898.396
F	Contract Management / JV Related Issues	10,272.229
G	HSEQ & Sustainability Management	782.959
	Total	716,216.077

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	20	3	87
2006-07	30	29	1	97
2007-08	17	12	5	71
2008-09	13	11	2	85
2009-10	12	10	2	83
2011-12	19	14	5	74
2012-13	23	20	3	87
2014-15	32	31	1	97
2015-16	50	41	9	82
2016-17	47	38	9	81
2017-18	36	27	9	75
2018-19	21	18	3	86
2019-20	21	18	3	86
2021-22	11	2	9	18
Total	464	369	95	80%

Overall compliance of PAC directives needs further improvement.

2.2.4 Audit Paras

Project & Production Management Related Issues

2.2.4.1 Loss of revenue due to forced curtailment of gas because of line pack issue of SNGPL – Rs 13,010.400 million

According to Rule 5(5) of the Corporate Governance Rules, 2013, the board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety. Further, according to minutes of 263rd BoD meeting dated November 01, 2023, it was stated that OGDCL incurred loss due less gas intake by SNGPL from Qadirpur field due to SNGPL system constraints. Furthermore, according to minutes of meeting on workshop on forced gas curtailment held on May 06, 2024, OGDCL elaborated the consequences of curtailed gas and loss to OGDCL / national exchequer. It was further briefed that the reduction of 350 MMCFD natural gas flows from the major local gas fields has created difficulties for the producers which can inflict a huge damage to the wells.

During audit of OGDCL for the FY 2023-24, it was observed that OGDCL had to curtail production from its 05 fields during the CYs 2021 to 2024. The less gas intake by SNGPL from Qadirpur, Nashpa, Chanda, Dhok Hussain and Togh fields due to SNGPL system constraints adversely impacted production. The forced reduction of natural gas flows from major gas fields created difficulties which could inflict a huge damage to the wells. The old gas fields were more vulnerable as they could not be recharged when the gas flows from them were massively decreased. OGDCL failed to take up matter with DG (Gas) to take remedial measures. This forced gas curtailment due to less in-take by SNGPL resulted in revenue loss of US\$ 46.480 million equivalent to Rs 13,010.400 million

Audit is of the view that less gas intake by SNGPL resulted in curtailment of production and loss of revenue of Rs 13,010.400 million to OGDCL.

The matter was reported to the management in August, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that the matter of gas curtailment as well as its financial and technical implications were timely

taken up with Petroleum Division. Moreover, number of meetings had been conducted with Petroleum Division, SNGPL and SSGC to resolve the issue.

The DAC directed the management to pursue the matter with DG (Gas) to resolve the issue. No further progress was reported till finalization of the report.

Audit recommends to take up matter with relevant forum to resolve the gas curtailment issue.

[DP No. 2968]

2.2.4.2 Delay in completion of compression projects resulting in potential loss of production – Rs 8,576.300 million per month

According to Rule 39A of Public Procurement Rules, 2004, “where required the procuring agency may incorporate the provision of Letter of Credit and International Chamber of Commerce incoterms (International Commercial Terms), in such processes where shipments and custom clearance are involved and where procuring agency’s bank mitigate procurement risk in terms of quality assurance and delivery mechanism and bidder’s bank in terms of its payments.”

During audit of OGDCL for the FY 2023-24, it was observed that management initiated 03 compression projects i.e. Dakhni, KPD-TAY and Uch due to decline in reservoir pressure to avoid production loss. The contracts for compression projects were awarded in November and December, 2023. However, despite lapse of one year, the management could not get necessary allocation of foreign exchange of US\$ 139.377 million from Ministry of Finance for establishment of Letter of Credits. These compression projects would be delayed beyond time planned for completion leading to potential loss of revenue of US\$ 30.850 million per month equivalent to Rs 8,576.300 million per month.

Audit is of the view that weak project management resulted in delay in completion of projects leading to failure in achievement of desired level of production and risk of loss of revenue.

The matter was reported to the management in August, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that Letter of Credits had been established in all three projects and would be completed as per timelines.

The DAC directed the management to get the stated stance verified from Audit. DAC further directed the management to expedite the completion of projects. No further progress was reported till finalization of the report.

Audit recommends to devise plan for timely completion of projects besides improving project management.

[DP No. 2943]

**2.2.4.3 Excess transit losses of oil beyond allowable / normal limit –
- Rs 548.467 million**

According to Article 1.2 Appendix-A (Accounting Procedure) of Model Petroleum Concession Agreement, “the Operator shall maintain and keep true and correct records of the production and disposition of all Petroleum under the Concession Agreement and the Joint Operating Agreement”. Further, according to Clause 6.3 of agreement between OGDCL and transportation contractor for transportation of OGDCL products to the refineries, in case of abnormal losses in transit, including due to accidents of bowzers and deterioration in quality or contamination attributable to contractor, contractor shall indemnify OGDCL to the extent of such loss.

During audit of OGDCL for the FY 2023-24, it was observed that reconciliation of oil produced and sold for the FY 2023-24 revealed that the management dispatched 11,730,564 barrels of oil to refineries whereas the refineries accepted 11,693,442 barrels resulting in transit losses of 37,122 barrels (0.32%) beyond allowable limit of 0.10% (11,730 barrels). Resultantly, 25,392 barrels valuing Rs 548.567 million were lost during transit. This resulted in abnormal transit losses of crude oil amounting to Rs 548.467 million.

Audit is of the view that failure to implement accounting procedure of Model Petroleum Concession Agreement resulted in huge discrepancies in production and abnormal transit losses.

The matter was reported to the management in September, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that an amount of Rs 274.900 million had been recovered whereas the remaining amount was not due. Audit contended that the main issue was loss of crude oil in barrels during transit. The management was requested to provide the recovery of lost crude oil in barrels.

The DAC directed the management to get the stated stance verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to recover transit losses beyond allowable limit of oil from carriage contractors in order to ensure proper accountal of production.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2023-24 vide para number 2.2.4.8 having financial impact of Rs 3,084.953 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2926]

2.2.4.4 Inordinate delay in completion of Nashpa Greater Water Supply Scheme - Rs 382.500 million

According to Clause 1 & 3 of Part-II of CSR Policy, 2023 of OGDCL, at least 1% of annual pre-tax profit of the company will be allocated for CSR activities in each fiscal year. Further, according to minutes of 223rd BoD meeting held on May 13 & 14, 2020, Nashpa Greater Water Supply Scheme (NGWSS) at Karak was approved with the advice that after necessary analysis and proper estimation, PC-I would be shared with the board for formal approval. Furthermore, BoD in its meeting held on June 29, 2021, approved the proposal to hand over the project of NGWSS for execution to Irrigation Department, Government of Khyber Pakhtunkhwa which shall prepare the formal and final cost estimation as per engineering standards.

During audit of OGDCL for the FY 2023-24, it was observed that the management initiated a project for development of Nashpa Greater Water Supply Scheme (NGWSS) in 2020. The CSR Council in its 17th meeting held on January 11, 2021, approved engagement of consultant for preparation of detailed feasibility study for the dam, completion of design, BOQs, cost estimate and tender documents. These assignments were to be completed within a period of 10 months whereas, 28 months were planned for completion of the project. The cost of the project as per PC-I was Rs 382.500 million. Audit observed that despite lapse of four years since approval of the project by BoD, no material progress could be achieved for completion of the project resulting in inordinate delay in completion of Nashpa Greater Water Supply Scheme.

Audit is of the view that weak management and monitoring by the management resulted in inordinate delay in completion of the project.

The matter was reported to the management in August, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that revised PC-II had been approved by Provincial Development Working Party (PDWP) on April 24, 2024. Further meeting of Departmental Consultant Selection Committee (DCSC) was held on August 07, 2024 by Planning & Monitoring Cell, Irrigation Department, Government of KP to finalize selection of consultant for feasibility study and detailed design of Nashpa Greater Water Supply Scheme. The consultant firm had been hired and work on the site had also been started.

The DAC directed the management to get the updated development of the project verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to take measures to complete the project without further delay besides improving management practices to avoid such instances in future.

[DP No. 2942]

2.2.4.5 *Unjustified payment of rental charges and exchange loss due to delay in procurement of shale shakers - Rs 65.907 million*

According to Rule 5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage. The principle shall be adhered to, especially with respect to handling of public funds, assets, resources and confidential information by directors, executives and employees and claiming of expenses.

During audit of OGDCL for the FY 2023-24 it was observed that management raised indent for procurement of screen frame of eight shale shakers in February, 2019. The bid was obtained from M/s Derrick Solutions being single source procurement but the process of proprietary procurement was annulled. Later on, tender for procurement of 09 shale shakers was invited and two firms including M/s Derrick Solutions was declared technically responsive but procurement process was annulled on the recommendations of Supply Chain Management Department. Later, second tender was invited in May, 2022 and again M/s Derrick Solutions was declared technically and financially responsive and purchase order was issued on May 17, 2023. The procurement process from

indent submission to issuance of purchase order took four years. Even though M/s Derrick Solutions was technically responsive the procurement was not finalized in time. Subsequently, due to Letter of Credits opening issues and budget position, purchase order was curtailed from US\$ 731,640 to US\$ 244,177 for procurement of three shale shakers. Audit observed that due to delayed procurement, OGDCL had to pay rental charges of shale shakers amounting to Rs 35.629 million. Further, dollar exchange rate in June, 2019 was Rs 155 per US\$ whereas, in February, 2024, it was Rs 279 resulting in exchange loss of Rs 30.278 million. This resulted in unjustified payment of rental charges and exchange loss of Rs 65.907 million.

Audit is of the view that weak project management led to abnormal delay in procurement of shale shakers resulting in loss of Rs 65.907 million.

The matter was reported to the management in September, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that procurement process was initiated but could not be finalized due to non-responsiveness of firm and later on due to Letter of Credit issues. Ultimately, all shale shakers were procured and were in the process of installation.

The DAC directed the management to get the stated stance verified from Audit as well as share commissioning reports. No further progress was reported till finalization of the report.

Audit recommends to justify the matter and take corrective measures to improve procurement process.

[DP No. 3054]

2.2.4.6 *Undue favour to the contractor due to less deduction of LD charges - Rs 117.902 million*

According to Clause 12.1 of contract signed between OGDCL and M/s Siemens Pakistan for hiring of services for C-Type inspection and core exchange of gas turbines EGT-2 and EGT-3 installed at Uch-I plant, if the contractor fails to deliver any or all of the good / services within the time period(s) specified in the contract, the purchaser shall, without prejudice to other remedies under the contract, deduct from the contract price / bank guarantee as LD, a sum not more than 0.5% of the contract price per week or part thereof for first four weeks,

1.00% per week for next four weeks and 1.5% per week exceeding four weeks up to maximum extent of 10% of the contract value.

During audit of OGDCL for the FY 2023-24 it was observed that the management initiated a case for C Type inspection with service and replacement of parts of Gas Turbines on proprietary mode from M/s Siemens Pakistan amounting to GBP 3.995 million. As per technical and financial bid evaluation, the countries of origin were Great Britain, Vietnam, Germany, USA, Belgium and China. The contract was signed on September 27, 2022 with the applicable period of one year. M/s Siemens supplied two wrong bearings valuing GBP 55,973.400 and short-supplied two bearing shells valuing GBP 29,549.100 on the plea that the country of origin was India. During service of Turbines, the contractor used old parts with commitment that these old parts would serve the purpose. Thus, contractor failed to fulfill the commitment of contract within stipulated period. LD charges @ 10% amounting to GBP 399,597 should have been imposed but OGDCL imposed LD charges on missing bearing shells only. This resulted in undue benefit to the supplier by imposing less LD charges instead of due LD charges of GBP 396,642.090 equivalent to Rs 117.902 million.

Audit is of the view that due to weak procurement management, undue favour was granted to the defaulter firm resulting in less deduction of LD charges.

The matter was reported to the management in September, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that Clause 12.2 of the contract regarding imposition of the LD charges was limited to the late delivered items only.

The DAC directed the management to submit a detailed report about installation of old parts and its effects on the performance. Further, it was directed to provide evidence of receipts of missing / new items. No further progress was reported till finalization of the report.

Audit recommends to recover the LD charges besides getting supply of wrong / short shipped items as well as ensure installation of new bearings as per purchase order.

[DP No. 3056]

Receivables Management

2.2.4.7 Undue retention of Funds of BESOS - Rs 40,870.881 million

According to Supreme Court of Pakistan order dated October 22, 2020, operative part thereof at Para 19 regarding Benazir Employees Stock Option Scheme (BESOS), “in view of our discussion above, where the very scheme has been found to be against Article 154 of the Constitution, we set aside the judgement dated November 24, 2016 passed by the learned Islamabad High Court in ICAs No. 292 to 294 of 2016 and uphold the judgment dated January 03, 2018 passed by the learned High Court of Sindh in Constitution Petition No. 1837 of 2014.” Further, according to Finance Division O.M F.NO. 8(6) AO-CF/2021-22 issued on May 09, 2022, it was directed to Petroleum Division to direct the concerned SOEs to deposit the balance amounts under BESOS in the Federal Consolidated Fund within 07 days.

During audit of OGDCL for the FY 2023-24, it was observed that BESOS was initiated on August 14, 2009 and Federal Government decided to distribute 12% of its equity among workers of SOEs to encourage stake and ownership of employees. OGDCL transferred 432.189 million shares valuing Rs 43,218.000 million to OGDCL Employees Empowerment Fund (OEET). On October 22, 2020, Supreme Court of Pakistan issued a detailed order, declaring that BESOS was executed in breach of Article 154 of the Constitution of the Islamic Republic of Pakistan. Therefore, any amount deposited / set aside by the SOEs be immediately deposited in the Federal Consolidated Fund. However, despite lapse of four years, the management failed to implement the Judgment of SCP. Out of 432.189 million shares, OEET transferred back 165.665 million shares to OGDCL but the management did not reflect this fact in the financial statement of OGDCL. Remaining 266.524 million shares were still with OEET. Further, an amount of Rs 40,870.881 million was accumulated over the period on account of unpaid dividends on BESOS shares but the management did not deposit the same in the Federal Consolidated Fund. This resulted in non-implementation of Supreme Court judgment leading to non-transfer of shares and non-deposit of accrued dividend in the FCF - Rs 40,870.881 million.

Audit is of the view that due to weak management, accrued dividend of Rs 40,870.881 million on BESOS could not be deposited in the FCF, and the shares were also not transferred to Government.

The matter was reported to the management in September, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that OGDCL had deposited Rs 20.000 Billion on September 11, 2024.

The DAC directed the management to get the deposited amount verified from Audit and expedite the deposit of remaining amount. DAC further directed the management to adjust book entry regarding shares received from retired employees. No further progress was reported till finalization of the report.

Audit recommends to transfer the ownership of BESOS shares to Government besides deposit of remaining accrued dividend in Federal Consolidated Fund.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2023-24 vide para number 2.2.4.14 having financial impact of Rs 3,800 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2919]

2.2.4.8 Non-recovery of trade receivables from gas companies and refineries – Rs 635,110.699 million

According to Clause 13.03 of the GSPAs, the buyer of gas shall pay within 30 days of invoice in the designated bank account share of each partner and in foreign exchange within 45 days from the date of receipt of invoice. Similarly, as per COSA, the refinery shall pay due amount within two months from the date of receipt of invoice from each partner of the producing field.

During audit of OGDCL for the FY 2023-24, it was observed that an amount of Rs 635,110.699 million was outstanding as on June 30, 2024, mainly on account of inter-corporate circular debt from gas companies and power producers i.e., SNGPL, SSGC, Uch Power Private Ltd. and Attock Refinery Limited. Out of total receivables, an amount of Rs 349,952.301 million (55%) was outstanding beyond one year which included Rs 2,195.330 million pertaining to oil refineries and other consumers.

Audit is of the view that weak financial management and non-resolution of circular debt issue resulted in non-recovery of outstanding amount of Rs 635,110.699 million.

The matter was reported to the management in August, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that an amount of Rs 153.741 Billion had been recovered up to November, 2024.

The DAC directed the management to get the recovered amount verified from Audit and expedite the recovery of balance amount. No further progress was reported till finalization of the report.

Audit recommends to expedite the recovery of outstanding amount besides pursuing the issue of circular debt with the Petroleum Division / Federal Government.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2019-20 vide para number 2.2.6.39 having financial impact of Rs 321,241 million and Audit Year 2023-24 vide para number 2.2.4.12 having financial impact of Rs 576,968.545 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2921]

2.2.4.9 Irregular expenditure on advertisement in violation of instructions of Press Information Department – Rs 252.954 million

According to Government of Pakistan, Press Information Department's letter F. No. 15(35)/2017-Ad-I dated October 14, 2023, the Government issued Guidelines and procedure for implementation of Advertisement Policy, 2021. All Ministries / Departments / Organizations / Autonomous bodies were required to publish advertisement through Press Information Department. Petroleum Division vide letter dated November 24, 2021, circulated the guidelines to all Public Sector Entities under the administrative control of Division for strict compliance.

During audit of OGDCL for the FY 2023-24, it was observed that management issued directions to various advertisement agencies to publish advertisements in various newspapers regarding tenders, recruitments and image building etc. directly instead of routing these advertisements through Press Information Department in violation of Advertisement Policy, 2021 and instructions issued by Petroleum Division. This resulted in irregular expenditure of Rs 252.954 million on advertisement in violation of instructions of Press Information Department.

Audit is of the view that weak internal controls and non-compliance of provisions of Advertisement Policy, 2021, resulted in irregular expenditure on account of advertisement.

The matter was reported to the management in September, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that BoD of OGDCL issued a Policy for advertisement and the same was being followed. The matter had been taken up with Ministry for clarification.

The DAC directed the management to pursue the matter with Petroleum Division to seek clarification. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter with Petroleum Division.

[DP No. 2949]

2.2.4.10 Non-recovery of House Building Loan, Conveyance Loan and TA / DA advance - Rs 41.205 million

According to Para 224 of OGDCL Employees Service Rules 2002, the company shall deduct instalments on account of recovery of amount of an advance and interest thereof from the member's salary and pay them to the Trustees each month. Such deduction shall commence from the second month of payment of salary to the member after the payment of the amount of advance to him and, in case a member is on extra-ordinary leave, from the second monthly payment of his salary to him after his return to duty from such leave.

During audit of OGDCL for the FY 2023-24, it was observed that the management failed to recover the House Building Loan of Rs 36.719 million from 33 employees despite lapse of considerable period of time i.e. 25 years in 02 cases and in other cases period ranging from one year to ten years. Further, interest on House Building Loan of Rs 2.969 million from 4 employees and Conveyance Loan of Rs 0.681 million from 03 employees were not recovered. These employees were inactive and the management was not able to take steps to recover the outstanding loans. Furthermore, TA/DA advance of Rs 0.572 million from 09 employees and Purchase advance of Rs 0.264 million from 02 employees was not recovered. This resulted in non-recovery of loans and advances of Rs 41.205 million

Audit is of the view that due to weak financial controls, an amount of Rs 41.205 million from employees could not be recovered.

The matter was reported to the management in August, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that the matter was sub-judice in the Islamabad High Court.

The DAC directed the management to submit detailed reply on case-to-case basis. No further progress was reported till finalization of the report.

Audit recommends to pursue the court case besides to ensure recovery of outstanding advances.

[DP No. 2932]

2.2.4.11 Payment of Award despite negative economics of Suleman Well - Rs 1,039.182 million

According to Clause-1 of OGDCL's Policy Department letter No. AAO-106-22 dated July 16, 2017, one basic salary will be paid as Award on discovery of an exploratory well or new reservoir in the existing developed field provided on the basis of initial assessment, the hydrocarbon reserves in place at P50 are more than 06 MMBOE and one basic salary will be paid on start of commercial production.

During audit of OGDCL for the FY 2023-24, it was observed that the management paid Award of Rs 1,039.182 million to employees in December, 2023 on start of commercial production from Suleman Well in Khewari block. Later on, workover jobs were carried out and based on testing results, the production profile was changed from 30 MMCFD to 10 MMCFD. Keeping in view uncertainty pertaining to recoverable volumes and substantial investment required for development, the cost economics of the field was negative as net cash flows from the gas field were minus US\$ 29.320 million as per revised field development plan submitted to DG (PC) on August 18, 2023. Audit observed that despite the fact that reserves of the field dropped from 30 MMCFD to 10 MMCFD as well as negative economics of the field, the management granted Bonus of Rs 1,039.182 million at the start of commercial production. Further, as per revised field development plan, total production from Suleman gas field was 2.030 MMBOE which was less than 6 MMBOE mentioned in the Award Policy.

This resulted in payment of Award despite negative economics of the field amounting to Rs 1,039.182 million.

Audit is of the view that due to flawed Policy, Award of Rs 1,039.182 million was granted despite negative economics of the field.

The matter was reported to the management in August, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that the economic analysis submitted with Suleman Field Development Plan on August 18, 2023 was positive even on the constant price (65 US\$/bbl) assumption throughout the field life economic analysis. Further, in recent 3rd party reserves study, the reserves were increased from 13.7 BCF to 14.4 BCF at 2P level and 28.5 BCF at 3P level by the evaluation of M/s GLJ, Canada. Audit contended that if field economics was positive then why management claimed marginal price for the field from DG (PC).

The DAC directed the management to share the reservoir study recently conducted showing the positive economics of the field. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides reconsidering the Award Policy and criteria so that Award be granted on achievement of milestones / benchmarks in excess of breakeven point.

[DP No. 3048]

2.2.4.12 Under statement of opening balance of LPG as reported in production reconciliation statements - Rs 15.070 million

According to Article 1.2 of Appendix-A (Accounting Procedure) of Model Petroleum Concession Agreement, the Operator shall maintain and keep true and correct records of the production and disposition of all Petroleum under the Concession Agreement and the Joint Operating Agreement.

During audit of OGDCL for the FY 2023-24, it was observed that the management was maintaining reconciliation statements of LPG produced and sold for the FYs 2022-23 and 2023-24. Scrutiny of these statements revealed that management booked closing balances of LPG as on June 30, 2023 of Dakhni and Chanda fields as 189.90 M. Tons but in opening balance as on July 01, 2023 the quantity was reported as 104.90 M. Tons. This resulted in difference of 85 M. Tons amounting to Rs 15.070 million.

Audit is of the view that failure to implement accounting procedure of Model Petroleum Concession Agreement resulted in discrepancies in production and actual quantities of LPG.

The matter was reported to the management in October, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that it was an error due to non-incorporation of LPG utilized at Soghri and reconciliation statement had been revised to resolve the issue.

The DAC directed the management to take action against the person(s) responsible and get the reconciled statement verified from Audit.

Audit recommends to get the reconciled statement verified from Audit as well as take appropriate measures to avoid this error in future.

[DP No. 2933]

HR Related Issues

2.2.4.13 Short deduction of Income Tax - Rs 23.460 million

According to Section 13(11) of the Income Tax Ordinance, 2001, where in a tax year, property is transferred or services are provided by an employer to an employee, the amount chargeable to tax to the employee under the head salary for that year shall include the fair market value of the property or services determined at the time the property is transferred or the services are provided, as reduced by any payment made by the employee for the property or services.

During audit of OGDCL for the FY 2023-24, it was observed that the management sold 23 vehicles to the entitled employees at purchase price as per Vehicle Policy. The company ignored the provision of Section 13(11) of Income Tax Ordinance, 2001 and did not apply fair market value and differential amount was not included as perquisite in taxable income for calculation of Income Tax on salaries. This resulted in short deduction of tax amounting to Rs 23.460 million.

Audit is of the view that weak internal controls resulted in short deduction of Income Tax of Rs 23.460 million.

The matter was reported to the management in October, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that twelve cars

were sold to employees during the year and withholding tax was duly deducted on gains arising to employees.

The DAC directed the management to seek clarification from FBR regarding determination of fair market value. No further progress was reported till finalization of the report.

Audit recommends to recover the Income Tax from the employees.

[DP No. 2929]

2.2.4.14 Irregular promotion of employees without required qualification & experience

According to Rule 5(c) of OGDCL Employee Service Rule, 2002, “no promotion to a post shall be made except in accordance with criteria as contained in Appendix B”. Further, according to Rule 33 (J)(3)(c) of Rule ibid, “promotion shall be made on the basis of merit, fitness and seniority in accordance with the criteria as contained in Appendix B.”

During audit of OGDCL for the FY 2023-24, it was observed that the management promoted ten employees of different cadres in higher grade without relevant qualification and experience as mentioned in the Service Rules. Thus, to the employees were being non-compliant with prevalent Rules. Summarized position of violation is given below:

Sr. No.	Promotion in Grade	Qualification of promoted employee	Required qualification
1	EG-IV Pr. Technical (Civil)	Diploma of Associate Engineering	B.Sc. / M.Sc. / Degree in Petroleum Engineering, 8 years' experience.
2	EG-V Chief Technical Officer Production	Diploma of Associate Engineering	Bachelor of Engineering.
3	EG-V Deputy Chief (Accountant)	BA/MA/MBA	Chartered Accountant / Associate of Cost & Management with minimum 12 years of post-qualification experience.
4	EG- IV Senior Driller	F. A	Diploma of Associate Engineering in Electrical / Mechanical Technology. Minimum 16 years of experience in oil well drilling in a reputed oil company.
5	EG-V Deputy Chief Driller	Matric / FA / BA	Master's Degree
7	EG- IV	B. Com /	Diploma of Associate Engineering in

	Senior Driller	MBA	Electrical / Mechanical Technology. Minimum 16 years of experience in oil well drilling in a reputed oil company.
8	EG-IV Senior Chemist	M.Sc. Statistics	M.Sc. Chemistry.
9	EG-V Deputy Chief Chemist	MSc Zoology, MA English, LLB and MBA HRM.	MSc Chemistry or BSc Chemical Engineering with 12 years relevant experience.
10	EG-VIII GM (JV & BD)	B.Sc. (Petroleum & Gas)	BSc Engineering, Mechanical, Electrical, Petroleum, Reservoir. M.Sc. Earth Science or related Science. PhD degree will give a credit of a 2 years and M.Sc. from a Foreign University of repute a credit of 1 year in experience.

Audit is of the view that due to weak HR management, employees without relevant qualification and experience were promoted.

The matter was reported to the management in October, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that all promotions were made as per promotion criteria laid down in OGDCL Service Regulations, 1994 according to which an employee having minimum 65% marks in the evaluation would be considered fit for promotion. Only those employees were promoted who secured minimum 65% marks in the evaluation.

The DAC directed the management to conduct an inquiry and fix responsibility for irregular promotion. No further progress was reported till finalization of the report.

Audit recommends to conduct an inquiry and fix responsibility for irregular promotion as per decision of DAC.

[DP No. 2935]

Procurement & Store Management

2.2.4.15 Ill-planned procurement without need assessment resulting in expiry of shelf life of chemicals - Rs 199.427 million

According to Clause 12.3.4 of Materials Management Manual of OGDCL, batch management shall be used for tracking of expiry date. Effective mechanism for tracking chemical's expiry date should be in place for proper handling of chemicals. Chemicals once expired will be removed from inventory

and kept separately in quarantine for safe disposal. Good management and inventory control practice e.g. First in First out (FIFO) shall be employed to avoid excessive inventory building and unnecessary waste generation through expiration.

During audit of OGDCL for the FY 2023-24 it was observed that the management was retaining 81 chemical items in stock valuing Rs 199.427 million without regard to their useful life. The shelf-life of these 81 chemical items got expired with a period ranging from three months to forty-eight months. Audit held that useful life / shelf-life of each chemical should have entered in the SAP system. This resulted in ill-planned procurement of chemicals without need assessment resulting in expiry of chemicals of Rs 199.427 million.

Audit is of the view that poor inventory management resulted in loss amounting to Rs 199.427 million.

The matter was reported to the management in September, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that out of total pointed out chemicals, some chemicals had been revalidated from supplier, the remaining chemicals were more than 20 years old and could not be used, hence, case for write-off of expired chemicals had been initiated.

The DAC directed the management get the stated stance verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to dispose of the expired chemicals as per the Manual besides taking steps to ensure entry of useful life of each chemical in SAP system as well as triggering alarm to take remedial measures before expiry of useful life.

[DP No. 2940]

2.2.4.16 Mis-procurement in violation of PPRA Rules – Rs 2,076.030 million

According to Rule 16 A(4) of the Public Procurement Rules, 2004, open and closed framework agreements may be made with the selected suppliers and service providers. Maximum duration of open framework agreements shall not be more than three years and the closed framework agreements shall not exceed one year.

During audit of OGDCL for the FY 2023-24, it was observed that the management hired services of drilling rigs of 2000 HP on rate running contract on well-to-well basis on September 25, 2023 for a period of one year from M/s Schlumberger Seaco Inc. The rate for drilling operations was agreed at US\$ 16,500 per day, rate for senior mess of 10 persons was US\$ 30 per day and rate for junior mess of 10 persons was US\$ 25 per day. As per agreement drilling operations were started at Kharo-1 well at a cost of US\$ 2.717 million. This rate running contract was further extended for 158 days from September 29, 2024 to March 05, 2025 at the same agreed rates. This extension was for drilling at Soghri North X-1 well at a cost of US\$ 6.347 million equivalent to Rs 1,713.690 million.

In another case, the management hired services of drilling fluid wastage management system for oil contamination and oil base mud under rate running contract on as and when required basis for a period of 02 years from M/s Step Oil Tools FZE Pakistan w.e.f. October 23, 2023. The services under this contract should be rendered at an estimated cost of US\$ 1.342 million equivalent to Rs 362.340 million during the period of 02 years. Audit held that execution of these contracts for 02 years period was in violation of PPRA Rules as these were closed framework agreements and their validity of more than one year was irregular. This extension resulted in mis-procurement of Rs 2,076.030 million.

Audit is of the view that non-observance of PPRA Rules resulted in mis-procurement of Rs 2,076.030 million.

The matter was reported to the management in October, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that after completion of Kharo-1 on March 02, 2024, Rig was deployed on May 20, 2024 at well Soghri North-1 within the contract validity. Therefore, the case was processed for extension i.e., from September 29, 2024 to March 05, 2025. In other case, principal method of procurement was open competitive bidding as per Rule 20 of PPRA Rules, 2004. Audit contended that as per Rule maximum duration of closed framework agreement could not exceed one year and in these cases the contract was extended beyond the period of one year which was irregular.

The DAC directed the management to get the stated stance verified from Audit in first case and to seek clarification from PPRA in second case. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides ensuring compliance of PPRA Rules during execution of contracts.

[DP Nos. 2944 & 2948]

2.2.4.17 Irregular procurement of Haulage trucks due to limited competition - Rs 508.610 million

According to Rule 10.1 of PPRA Rules 2004, the procuring agency shall allow widest possible competition by defying such specifications that shall not favour any single contractor or supplier nor put others at disadvantage. Further, according to Clause 15.2 of Procurement Manual of OGDCL, while evaluating and comparing bids, allow for preference to domestic suppliers or contractors, while competing with the international bidders in accordance with policies of Federal Government or regulations made by PPRA.

During audit of OGDCL for the FY 2023-24 it was observed that the management procured 20 number of 4x4 Haulage Trucks valuing Rs 508.610 million from M/s Man Energy Solutions. Scrutiny of record revealed that on query by Procurement Department, the Chief Technical Officer of OGDCL confirmed that the indented Trucks were not manufactured locally. Therefore, the management advertised the tenders on July 07, 2021. As per tender, the bid price of the items was to be quoted on 'FOB' port of loading including all FOB charges and sea freight must be quoted as separate line item as C&F price. On August 12, 2021, M/s ISUZU (Ghandhara Industries Ltd. Pakistan) informed that Truck 4x4 required by OGDCL were locally available / assembled in Pakistan and conveniently available at very competitive price. M/s Isuzu requested to replace the 'FOB' basis to 'FOR' basis pricing which would save foreign exchange. However, OGDCL procured Haulage truck on C&F by sea basis restricting the local manufacturer to participate in the bidding process. Further, the certificate given by the Chief Technical Officer regarding non-manufacturing of Haulage Truck in Pakistan was not based on facts. This resulted in irregular procurement of Haulage trucks due to limiting the competition by quoting FOB price - Rs 508.610 million.

Audit is of the view that weak internal controls, and non-adherence to rules resulted in irregular procurement of Rs 508.61 million.

The matter was reported to the management in September, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that these were specialized trucks for seismic operations and bidding process was followed.

The DAC directed the management to get their stance verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for wrong certification and foreign procurement despite availability of local items besides regularization of expenditure from competent authority.

[DP No. 2954]

2.2.4.18 Irregular award of CSR projects to NGOs in violation of PPRA Rules – Rs 423.499 million

According to Rule 4 of PPRA 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 OGDCL for the FY 2023-24, it was observed that the management in 06 cases utilized funds of voluntary CSR of Rs 423.499 million through NGOs by signing MoUs. The activities included construction of Model village at Jhal Magsi through HANDS, Construction of 30 safe & sustainable houses for vulnerable communities in district Jaffarabad and Construction of Grammar School at Jhal Magsi etc. The NGOs directly submitted proposals for execution of projects and the same were accepted by the management without justification / analysis of cost of projects. Hence bypassing the PPRA Rules by eliminating the competitive process. Further, no performance / bank guarantees were obtained while granting advances for execution of projects. This resulted in risk prone and irregular utilization of CSR funds of Rs 423.499 million.

Audit is of the view that negligence of the management resulted in violation of PPRA Rules while assigning projects to different NGOs without bidding / open competition.

The matter was reported to the management in August, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that these were grants and might not be treated as procurements.

The DAC directed the management to seek clarification from PPRA regarding the issue. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides reviewing the process of awarding projects to NGOs, which should align with PPRA standards, be open, criteria-based, and structured, as well as improving cost estimation of the CSR projects.

[DP No. 2947]

Exploration & Drilling Management

2.2.4.19 Non-achievement of targets and non-performance of assigned work resulting in wasteful expenditure on seismic parties - Rs 1,898.396 million

According to Annual Business Plans of OGDCL for the FYs 2018-19 to 2023-24, operational targets for seismic parties for survey of 2D L. Kms and 3D Sq. Kms were fixed with the approval of BoD. Further, seismic parties are responsible for data acquisition of concessions by executing survey program for fast-track seismic data acquisition.

During audit of OGDCL for the FY 2023-24, it was observed that the management could not achieve seismic survey targets as approved in the Business Plans. OGDCL had five seismic parties which were assigned seismic work of 2D and 3D but seismic parties could not achieve the targets as detailed below:

Year	Targets		Achievements		% target not achieved	
	2D L. Kms	3D Sq. Kms	2D L. Kms	3D Sq. Kms	2D L. Kms	3D Sq. Kms
2018-19	4,000	550	3,407	0	(15%)	(100%)
2020-21	4,300	1,050	2,000	600	(53%)	(43%)
2021-22	4,770	600	2,535	600	(47%)	-
2022-23	2,400	1,100	1,800	800	(25%)	(27%)
2023-24	1,810	1,150	1,410	1,150	(22%)	-

Analysis of data relating to the FY 2023-24, revealed that all the seismic parties failed to achieve the targeted surveys and remained idle for a

considerable time. Audit holds that Seismic parties could not complete assigned work resulting in expenditure incurred on these parties during idle period being wasted. This resulted in wasteful expenditure of Rs 1,898.396 million.

Audit is of the view that weak management controls resulted in non-achievement of targets and wasteful expenditure on seismic parties of Rs 1,898.396 million.

The matter was reported to the management in September, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that the seismic data acquisition in Pakistan depended upon several factors, including the terrain / topography, acquisition parameters, atmospheric conditions and significant security constraints. In addition to that pre-requisites such as NOCs from concerned authorities, shifting of base camps / magazines, establishment of the camps, survey, dozing & drilling work in the project area were also required before start of data acquisition work.

The DAC directed the management to get the stated stance verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to take steps to achieve targets of data acquisition as planned besides implementation of DAC decision.

[DP No. 3052]

Contract Management / JV Related Issues

2.2.4.20 Non-implementation of ECC's decision regarding completion of farm-out opportunities of four blocks offered to GHPL - Rs 8,900 million

According to Rule 24(1) of Rules of Business, 1973, regarding action on decisions of the Cabinet, National Economic Council or their Committees, etc. when a case has been decided by the Cabinet or the National Economic Council or their Committees, the Minister-in-Charge shall take prompt action to give effect to the decision.

During audit of OGDCL for the FY 2023-24, it was observed that ECC of the Cabinet vide cases No. ECC-68/07/2022 dated March 07, 2022 considered the Summary dated February 25, 2022 submitted by the Petroleum Division regarding permission to amend the Petroleum Concession Agreement allowing GHPL assignment of working interest from 2.5% to 17.5% in Wali, Jandran

West, Saruna and PEZU blocks of OGDCL and approved the proposal regarding completion of farm-out of four blocks offered to GHPL. ECC's decision was ratified by the Federal Cabinet on March 16, 2022. However, despite lapse of more than two years and six months, the management failed to implement the decision of ECC and Federal Cabinet.

Audit is on the view that due to weak internal controls, the ECC / Cabinet's decision was not implemented resulting in loss of potential investment of Rs 8,900 million.

The matter was reported to the management in September, 2024.

The DAC in its meeting held on January 1 & 2, 2025, directed the management to take up the matter with Petroleum Division for seeking clarification on the issue. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides expediting the implementation of ECC's decision.

[DP No. 2941]

2.2.4.21 Unauthorised sale of low-pressure gas to third parties - Rs 655.029 million

According to Section 22(1) read with Section 23(1)(d) of Oil and Gas Regulatory Authority Ordinance, 2002, the Authority shall have the exclusive power to be exercised in the manner prescribed in the rules, to grant, issue, renew, extend, modify, amend, suspend, review, cancel and reissue, revoke or terminate a license in respect of any regulated activity. No person shall undertake transmission, distribution or sale of natural gas, unless a general or specific license to undertake such activity has been issued and is in full force and effect and the person is the licensee.

During audit of OGDCL for the FY 2023-24, it was observed that the management sold low pressure gas (regulated activity) from 10 fields to 3rd parties without having the license of OGRA to sell low pressure gas. This resulted in illegal sale of low-pressure gas by OGDCL amounting to Rs 655.029 million.

Audit is of the view that weak financial management resulted in sale of low-pressure gas to 3rd parties without having OGRA's license.

The matter was reported to the management in September, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that there was no obligation on producer to obtain license from OGRA for sale of low pressure gas. The responsibility for obtaining the license was on the buyer companies. The issue had also been raised with DG (PC).

The DAC directed the management to pursue the matter with DG (PC). No further progress was reported till finalization of the report.

Audit recommends to probe the matter through fact finding and fix responsibility for sale of low-pressure gas to 3rd parties without having OGRA's license besides strengthening internal controls to avoid such lapses.

[DP No. 2922]

2.2.4.22 Non-execution of PCA resulting in non-deposit of Training Fund - Rs 674.297 million

According to Clause 5 of Misan Exploration License Block 2568-3, "the Licensee shall not later than 30 days after the license has been granted enter into negotiation for a Concession Agreement with the Government of Pakistan for the said license. However, till the execution of the Agreement, and as an ad-hoc arrangement the provision of Thatta Petroleum Concession Agreement dated February 12, 1994 shall be applicable to the license to the extent that these are not in conflict with the provision of license." Further, according to Article 17.3 of Thatta PCA linked to Misan Development Lease, "the minimum amount to be spent annually on training by foreign working interest owner will be equal to US\$ 50,000 during pre-commercial discovery stage and US\$ 100,000 after the commercial discovery."

During audit of OGDCL for the FY 2023-24, it was observed that Misan block exploration license was awarded to OGDCL effective from December 05, 1994 in accordance with the provision of Pakistan Petroleum (E&P) Rules, 1986. Misan block lease was granted vide letter dated July 12, 1999. Thatta PCA was linked to Misan Block on ad hoc basis till the signing to its own PCA. The Licensee was required to enter into negotiation for a Concession Agreement with the Government of Pakistan for said license. However, the management failed to

get PCA of Misan block finalized / signed till June, 2024 despite lapse of 25 years. Due to non-signing / finalization of Misan PCA, the management did not pay Training Fund amounting to US\$ 2.497 million equivalent to Rs 674.297 million on the plea that under Thatta PCA, the obligations were payable by foreign working interest owners only.

Audit is of the view that non-execution of PCA resulted in non-deposit of Training Fund of Rs 674.297 million.

The matter was reported to the management in September, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that PCA was pending approval with DG (PC) in line with the Thatta PCA. As far as the Training Fund was concerned OGDCL was not liable to pay under 1994 Policy.

The DAC directed the management to get the stated stance verified from Audit. Further, DAC shifted the para to DG (PC). No further progress was reported till finalization of the report.

Audit recommends to ensure signing of PCA, besides recovery of Training Fund.

[DP No. 2923]

2.2.4.23 Non-deposit of Social Welfare Obligation - Rs 42.903 million

According to Annexure VII of the Pakistan Petroleum (Exploration & 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 Obligation within one month of signing of PCA and subsequently by 31st January each year. The amount of Social Welfare Obligation 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. Further, according to Clause 12.8 of Article-XII of Petroleum Concession Agreement, the rate of exchange to be applied to all currency conversion transactions and calculations under this Agreement shall be the official rate of exchange, as established by the Exchange Rate Committee prevailing on the date of the transaction.

During audit of OGDCL for the FY 2023-24, it was observed that the management did not deposit Social Welfare Obligation of Rs 31.052 million in

respect of 06 licenses in the joint accounts of the concerned Deputy Commissioners as joint bank account was not opened despite lapse of a period ranging from 01 to 05 years. Further, the management short deposited Social Welfare Obligation amounting to Rs 11.851 million in respect of 03 licenses in the joint accounts of the concerned Deputy Commissioners. Scrutiny of the record revealed that the management deposited US\$ 113,005 on July 09, 2024 and applied exchange rate of previous dates instead of date of deposit. This resulted in short-deposit of Social Welfare of Social Welfare Obligation of Rs 42.903 million.

Audit is of the view that poor financial management resulted in non-deposit of Social Welfare Obligation due non-opening of joint bank account and applying incorrect exchange rate.

The matter was reported to the management in August, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that in first case, opening of joint accounts for Kalat, Mach, Mastung, Kamber and Pakpattan was still pending. The management was actively pursuing the matter with the concerned DC offices and relevant provincial governments. Further, the account opening process for district Swabi was in process and expected to be completed within two weeks. In second case, the delay in opening of joint account was on the part of Bahawalnagar DC office. As the delay was not on the part of OGDCL, therefore, previous year's exchange rate was applied when obligation became due.

The DAC directed the management to take up the matter with concerned DCs through Petroleum Division. DAC further, directed the management to seek clarification from DG (PC) regarding applicability of exchange rate. No further progress was reported till finalization of the report.

Audit recommends to open joint bank accounts with concerned DC offices for deposit of due amount of Social Welfare Obligation.

[DP Nos. 2930 & 2931]

2.2.4.24 Non-finalization of GSAs and COSAs with gas companies and refineries

According to Article 10.1 of Model PCA, should the President of Pakistan require the Working Interest Owners to meet the internal requirements

of Pakistan according to the Rules, the following shall apply that if in any year there is projected domestic demand, as determined by an entity designated by the Government, in excess of production from indigenous source, the President of Pakistan may require Working Interest Owners to sell crude oil in Pakistan on a pro-rata basis with other producers in Pakistan, according to the crude oil production of each producer in a year. Further, according to Article 10.2(a) of Model PCA, Working Interest Owners will be allowed to contract with natural gas transmission and distribution companies and third parties, other than residential and commercial consumers, for the sale of their share of natural gas in Pakistan at negotiated prices in accordance with applicable laws, rules and regulations.

During audit of OGDCL for the FY 2023-24, it was observed that the management was selling gas to SSGC and SNGPL from 03 fields and Soghri field respectively on term sheets without executing any agreements / GSA. Further, crude oil was being supplied to refineries from 08 fields without finalization of Crude Oil Sale Agreement (COSA) with respective refineries.

Audit is of the view that weak regulatory compliance and internal controls resulted in non-finalization of GSAs and COSAs.

The matter was reported to the management in August, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that in first case, the matter was being followed. In second case, the matter was submitted to DG (Oil). However, model COSA was under review in the office of DG (Oil).

The DAC directed the management to pursue the matter with quarter concerned and with DG (Oil) to resolve the issue within two months. No further progress was reported till finalization of the report.

Audit recommends to take steps to finalize all pending GSAs / COSAs.

[DP Nos. 2937 & 2938]

2.2.4.25 Non-carrying out of impact assessment of CSR projects as required under CSR Policy

According to Clauses 1 and 3 of Part-II of CSR Policy, 2023 of OGDCL, at least 1% of annual pre-tax profit of the company will be allocated for CSR activities in each fiscal year. The CSR budget after deduction of PCA Obligation will further split into three (03) categories, 65% will be allocated to producing

areas on the basis of revenue generated from respective field, 30% will be allocated for other CSR initiatives and 05% will be allocated for promotion of CSR initiatives for corporate image building. Further, CSR Project evaluation or impact assessment may be carried out internally or through third party.

During audit of OGDCL for the FY 2023-24, it was observed that the management utilized funds of Rs 1,016.056 million during 2023-24 on different activities of CSR. Majority of the funds were utilized on water supply, infrastructure development, health and education. However, impact assessment of the CSR projects as required under CSR Policy was not carried out.

Audit is of the view that due to non-carrying out of impact assessment of CSR projects, efficacy of CRS in impacting communities could not be assessed.

The matter was reported to the management in September, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that comprehensive impact assessments had already been completed for CSR projects in two districts i.e. Karak & Sanghar and remaining assessments were in process.

The DAC directed to share completed reports with Audit and complete the remaining assessment reports. DAC also directed to provide the mechanism through which the districts were selected for assessment.

Audit recommends to implement the decision of DAC besides ensuring compliance of CSR Policy and carrying out impact assessment of CSR projects.

[DP No. 2951]

HSEQ and Sustainability Management

2.2.4.26 Irregular award of contract despite revocation of NOC by EPA - Rs 362.340 million

According to Clause K(xi) of Technical Specifications of bid documents, the contractor shall have in its possession all relevant licenses from local regulators / agencies including Environmental Protection Agency (EPA). Further, according to Clause 40 of Instructions to Bidders of bid documents, in compliance of HSEQ policy, submission of quarterly NEQS results to respective EPA and subsequent clearance would be sole responsibility of contractor.

During audit of OGDCL for the FY 2023-24, it was observed that the management advertised tender on April 01, 2023, for hiring of services of drilling fluid wastage management system for oil contamination and oil base

mud under the rate running contract on as and when required basis for a period of two years. Technical bids were opened on May 02, 2023 and 03 bidders were technically declared responsive including M/s Sirius, Step Oil and Hilong Oil. Financial bids were opened on June 07, 2023 and M/s Step Oil was lowest and was awarded contract for solid control and waste management services at a cost of US\$ 1.342 million equivalent to Rs 362.340 million for a period of two years. M/s Hilong reported on June 14, 2023 that the license issued to M/s Step Oil by DG Environmental Protection Agency, KP was withdrawn and the copy of the letter was shared with the management. Audit held that despite the fact that license issued to M/s Step Oil by DG Environmental Protection Agency, KP was withdrawn, the management awarded the contract to M/s Step Oil in violation of bidding documents. This resulted in irregular award of contract despite revocation of NOC by EPA - Rs 362.340 million.

Audit is of the view that due to weak contract management the contract of Rs 362.340 million was awarded in violation of bidding documents.

The matter was reported to the management in October, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that NOC from EPA was not a mandatory clause in the bidding documents.

The DAC directed the management to identify the person who included the Clause in bidding document if it could not be fulfilled. DAC further directed to take up the matter with EPA to seek clarification. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides ensuring compliance of HSEQ standards and instructions issued by EPA during execution of contracts.

[DP No. 2953]

2.2.4.27 Abnormal delay in commissioning of Incinerator System for KPD-TAY gas field causing harm to the environment for eight years - Rs 420.619 million

According to Clause 7.5 of Framework for Hydrogen Sulphide (H₂S) Management of OGDCL's Integrated HSE System Manual, H₂S detection equipment (sensors, alarms, monitors) shall be made available in quantities as per Appendix-A, before commencement of work. Further, according to

Annexure-J of OGDCL Safety Handbook for oil & gas Drilling and Servicing Operations, two H₂S detectors should be present. The maximum permissible exposure limit (PEL) is 20 ppm for H₂S. Respiratory protection would be required if periodic testing indicates employee exposures to H₂S at concentrations above the PEL.

During audit of OGDCL for the FY 2023-24, it was observed that a contract was awarded to M/s Novargi Industries S.L Spain for procurement, design, fabrication, supply, installation, supervision, complete testing and commissioning of acid gas Incinerator System for KPD-TAY gas field at contract price of US\$ 1,557,850 equivalent to Rs 420.619 million. As per indent dated October 01, 2014, the Incinerator System was a basic operational and HSE requirement for the disposal of waste H₂S gas. Purchase Order was issued to the supplier on May 05, 2015 and the supplier completed design, fabrication and supply of acid gas Incinerator System up to May 08, 2016. Later on, management signed an amendment in the contract on October 16, 2023, between OGDCL and Petro Allied Solutions Private Ltd. being the local agent of M/s Novargi Industries S.L Spain for installation supervision, commissioning, start-up, testing of acid gas Incinerator System and 02 weeks training of operational personnel at plant. acid gas Incinerator System was commissioned and Provisional Acceptance Certificate was issued on January 22, 2024 after lapse of eight years. It was worth mentioning that as per reconciliation statements, 15,314.72 MMCF of acid gases were flared from KPD-TAY gas field during the period from 2019-20 to 2023-24. This resulted in abnormal delay in commissioning of Incinerator System for KPD-TAY gas field costing Rs 420.619 million besides non-disposal of waste H₂S gas removed from the processing of the raw gas causing harm to environment for eight years.

Audit is of the view that due to weak internal controls by management, the whole process from procurement to commissioning / installation / startup and training of personnel took abnormal delay of about eight years besides causing harm to environment for eight years as a result of non-disposal of waste H₂S gas.

The matter was reported to the management in September, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that there were two parts of Incinerator System. In case of first part, arrived in time. Afterwards, there was delay in second part i.e. hiring and installation of Incinerator System.

The delay was on the part of foreign consultant's travelling issues, covid restrictions etc. After removal of all hurdles, Incinerator System was finally installed and commissioned in 2024.

The DAC directed the management to refer the matter to EPA Sindh through Petroleum Division. No further progress was reported till finalization of the report.

Audit recommends to investigate the matter for causing harm to the environment and violation of HSE requirement for long time.

[DP No. 2955]

2.2.4.28 Violation of National Environmental Quality Standards for Noise

According to Section 11 of the Pakistan Environmental Protection Act, 1997, no person shall discharge or emit or allow the discharge or emission of any effluent or waste or air pollutant or noise in an amount, concentration or level which is in excess of National Environmental Quality Standards. Further, according to SRO 1064(I)/2010 dated November 26, 2010, issued under Section 6 of the Pakistan Environmental Protection Act, 1997, National Environmental Quality Standards limits for noise regarding industrial area was reduced from 80 dB day time and 75 dB night time to 75 dB day time and 65 dB night time with effect from July 01, 2012.

During audit of OGDCL for the FY 2023-24, it was observed that the management provided monthly noise monitoring reports of Qadirpur plant which showed that management was still maintaining the threshold noise level at 85 dB in violation of revised allowable limit of 75 dB day time and 65 dB night time with effect from July 01, 2012. Further, review of noise levels given in monthly noise monitoring reports in respect of Qadirpur plant revealed that noise levels were higher ranging from 60% to 85% more than the prescribed limit. This was not only a violation of standards but was also harmful to the health of employees and community.

Audit is of the view that weak HSE management resulted in non-compliance of National Environmental Quality Standards and reflected a lack of diligence on the part of the field management.

The matter was reported to the management in October, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that standards were

being followed as evident from report of third party. The management further stated that OGDCL was the only Public Sector Company of Pakistan that issued ESG Policy as well as a sustainability report in November, 2024 and also established a Board Committee on ESG. Moreover, training of officers and senior management on ESG was also conducted.

The DAC directed the management to get stated stance verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to investigating the violation of the National Environmental Quality Standards and remedial measure to be taken for its implementation. Further, responsibility be fixed for non-observance of HSE's standards and to promptly address the identified deficiencies.

[DP No. 2956]

2.2.4.29 Adverse impact on environment due to flare of gas of 5,090 MMCF from fields

According to Section 16 of the Pakistan Environmental Protection Act, 1997, where the Federal Agency or a Provincial Agency is satisfied that the discharge or emission of any effluent, waste, air pollutant or any other act or omission is likely to occur, or is occurring or has occurred in violation of the provisions of this Act, rules or regulations or of the conditions of a license, and is likely to cause, or is causing or has caused an adverse environmental effect, the Federal Agency or, as the case may be, the Provincial Agency may, after giving the person responsible for such discharge emission, disposal, handling, act or omission an opportunity of being heard, by order direct such person to take measures necessary within the period as may be specified in the order.

Further, PAC in its meeting held on April 07, 2021 (Para 2.1.7.10) directed the PAO to provide consultants to the Audit team to clarify the factual position relating to flaring of gas. The PAO was directed to look into the environmental impact of the flaring of gas and report to PAC.

During audit of OGDCL for the FY 2023-24, it was observed that flare gas had a significant impact on the climate, primarily due to the release of methane and carbon dioxide. The flaring of gas was not only depriving the company of revenue but also had an adverse impact on the environment. Audit observed that OGDCL flared 5,090 MMCF of gas equivalent to 4.220 MMCFD gas during FYs 2021-22 to 2023-24.

The matter was reported to the management in October, 2024. The management in its reply dated December 26, 2024 stated that permeate gas was flared due to planned and un-planned shutdown of compressors and variation in gas off-take by buyers.

The DAC in its meeting held on January 1 & 2, 2025, directed the management to get the stated stance verified from Audit, and provide case-to-case compliance to Audit. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides increasing operational efficiency to reduce gas flaring, reducing the amount of methane as well as carbon dioxide released in the atmosphere.

[DP No. 2957]

2.2.4.30 Non-installation of active firefighting system at fields and H₂S gas detectors at rigs in violation of HSE standards

According to Clause 7.1 of OGDCL's Integrated HSE System Manual, the management shall establish controls as appropriate to ensure that its HSE requirement(s) are addressed in the design, processes, production, and dispatch of the products, considering each stage of its life cycle. Further, according to Clause 7.5 of Framework for H₂S management of OGDCL's Integrated HSE System Manual, H₂S detection equipment (sensors, alarms, monitors) shall be made available in quantities as per Appendix-A. Furthermore, according to Life saving Golden Rule 6 of OGDCL's Integrated HSE System Manual, fire risk must be assessed and control measures such as procedures and active / passive fire protection systems be implemented.

During audit of OGDCL for the FY 2023-24, it was observed that management had not installed firefighting system at 14 locations of fields. In other cases, the management had not installed H₂S detectors at rigs i.e. N-2, N-5 and N-6. Further, in case of rig N-6, quantity of H₂S detection equipment i.e. H₂S detectors, gas sensors & alarms were not in line according to requirements as per Manual. This resulted in non-installation of active firefighting system at fields and non-installation of H₂S gas detectors at rigs in violation of HSE standards.

Audit is of the view that non-installation of active firefighting system at fields and H₂S gas detectors at rigs was not only violation of HSEQ safety standards but could also expose the people, property, and the environment to damage.

The matter was reported to the management in October, 2024. The management in its reply dated December 26, 2024 stated that firefighting system had been installed at Dakhi, Uch and Sinjhoru. Further, the management stated that H₂S gas detectors had been installed at rig N-6. Audit contended that non-installation of firefighting system at 14 locations of fields were pointed out therefore, installation at all the premises should have been ensured. Similarly, installation of H₂S detectors at all locations be ensured.

The DAC in its meeting held on January 1 & 2, 2025, directed to provide case to case compliance to Audit. DAC further, directed to provide installation and commissioning reports to Audit.

Audit recommends to ensure installation of firefighting system and H₂S detectors at all locations besides provision of commissioning reports.

[DP Nos. 2959 & 2961]

2.2.4.31 Lack of way forward to implement commitments of COP-28 signed by OGDCL

According to minutes of 26th meeting of Risk Management Committee held on December 21, 2023, the management of OGDCL signed De-Carbonization Charter at COP-28 in UAE on December 02, 2023. It was committed to net-zero operations by 2050 and ending routine flaring by 2030 and near zero upstream methane emissions. Further, Memorandum of Understanding (MoU) in respect of Green Hydrogen Projects was signed between five state-owned oil and gas companies (GHPL, PARCO, PPL, MPCL & OGDCL) aligning with the Ministry of Energy's vision and following global trends.

During audit of OGDCL for the FY 2023-24, it was observed that the management participated in Conference of the Parties (COP-28) under the United Nations Framework Convention on Climate Change (UNFCCC) in UAE on December 02, 2023. In this conference the management signed the De-Carbonization Charter and committed to net-zero emissions by 2050 and ending

routine flaring by 2030 and near zero upstream methane emissions. In order to achieve these commitments, the management planned to reduce Green House Gas (GHG) emissions during its processes as well as periodic monitoring of GHG gases. Further, MoU between GHPL, PARCO, PPL, MPCL & OGDCL was aimed at exploring mutual cooperation and joint venture projects focused on green hydrogen opportunities within and beyond Pakistan. A joint fund was proposed for raising equity for these Green Hydrogen. Project as well as engagement of consultants / advisors. Audit held that despite signing of MoU, no concrete steps were taken to achieve the intended objectives for Green Hydrogen Projects. No investment / availability of funds, annual plan to reduce emission was shared with Audit. Concrete steps were not taken to use flare gas commercially for recycling, operating gas engines for power generation, also a flare gas utilization plan was not chalked out.

Audit is of the view that weak management practices led to lack of commitment / way forward to implement commitments of COP-28.

The matter was reported to the management in October, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that after signing of COP-28, different initiatives had been taken. OGDCL was the only Public Sector Company of Pakistan that issued ESG Policy and sustainability report in November, 2024. It was the first company that established a Board level committee on ESG and first Geo-Thermal Project was initiated in Pakistan. Further, project for solarization of fields was also initiated with the assistance of LUMS Energy Institute. In another case, management stated that PPL was operating consortium with partnership of PARCO, MPLCL, GHPL and OGDCL.

The DAC directed the management to share ESG Report with Audit and to get stated stance verified from Audit. DAC further, directed the management to pursue the matter with PPL. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides taking effective steps to achieve the commitments signed in COP-28 as well as allocation of sufficient funds for the planned activities for the environment.

[DP Nos. 2958 & 3057]

2.2.4.32 Non-maintenance of explosives license and violation of safety guidelines for construction of explosive magazines

According to Clause 5.3 of OGDCL's Integrated HSE System Manual, HSE Department shall be responsible for identifying the applicable regulatory and other requirements. Regulatory requirements shall include the national / local regulations related to environment, occupational health & safety e.g. Explosives Rules. Further, according to Rule 104(3) of Explosives Rules, 2010, every application for the grant, amendment or renewal of a license to manufacture, possess, use, sales, transport, import or export explosives or issue of permit under these rules, shall be made in proper form as set out in Schedule-V and shall be accompanied by the particulars, as specified in the application Form.

During audit of OGDCL for the FY 2023-24, it was observed that the management had been maintaining explosives magazine at Khadeji Base Store (KDS) and with five seismic parties. The management was required to obtain license from Department of Explosives for these locations. The management only provided KDS license dated October 11, 2021 which was renewed up to September 30, 2023, however, updated license was not provided. Audit requested time and again to provide the license for all the locations where explosives were stored but the same were neither provided nor available in the record.

Further, explosives license for the storage of crude oil and HSD from Department of Explosives was not acquired to fulfill the regulatory requirements at Qadirpur gas field and at Dhoke Hussain gas field. In case of Seismic party 01 and 02, explosive magazines had been constructed without adhering to regulatory requirements. In case of Seismic party 03 and 01, Lightning Arrester was installed at explosive magazine but either log function testing of Lightning Arrester was not available or staff was unaware of the coverage area of the Lightning Arrestor. In the absence of log function testing of Lightning Arrester, its reliability cannot be ascertained which poses a fire hazard. This resulted in non-availability of license for maintenance of magazine from Department of Explosives and violation of safety guidelines and Regulatory requirements for construction of explosives magazines.

Audit is of the view that non-compliance was a serious matter, reflecting a lack of diligence on the part of the field management.

The matter was reported to the management in October, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that in the first case as per Clause 112 of Explosive Rules 2010, every application for renewal shall be made not less than 30 days before expiry and the license shall be valid till expiry or till such date as the Authority may renew the license or, as the case may be, till intimation communicated to the applicant that the renewal of the license has been refused.

The DAC directed to provide case to case reply to Audit. DAC further, directed to provide applications made for renewal of licenses and provide all valid licenses to Audit. No further progress was reported till finalization of the report.

Audit recommends to promptly address the identified deficiencies as well as obtain licenses from Department of Explosives.

[DP Nos. 2960 & 2962]

2.2.4.33 Non-compliance of National Environmental Quality Standards regarding submission of Environmental Monitoring Reports

According to Rule 3 of National Environmental Quality Standards (Self-Monitoring and Reporting by Industry) Rule, 2001, all oil and gas production units shall be responsible for correct and timely submission of Environmental Monitoring Reports to the Federal or Provincial Environmental Protection Agency. Further, according to Rules 5 and 9 of *ibid*, oil and gas production units shall submit Environmental Monitoring Reports on monthly basis in respect of liquid effluents and gaseous emissions in the form as set out in Forms A, B and C, respectively, of Schedule VI.

During audit of OGDCL for the FY 2023-24, it was observed that the management was required to submit monthly reports of liquid effluents and gaseous emissions from all the fields / plants to relevant Environmental Protection Agency which was not being done. It was pertinent to mention that Sindh Environmental Protection Agency, in a number of reminders requested the management to submit Environmental Monitoring Reports (EMRs) along with monthly waste disposal certificates / reports of Bobi Oil field and Sinjhoru plant

for the last six months but that was not done. The management also flared / vented gas of 1,544.230 MMCF from its 24 plants during 2023-24. The management was not reporting the effect on environment due to flaring to the respective agencies through EMRs. This resulted in violation of National Environmental Quality Standards regarding submission of EMRs.

Audit is of the view that weak management resulted in non-compliance of National Environmental Quality Standards regarding submission of EMRs.

The matter was reported to the management in October, 2024. In DAC meeting held on January 1 & 2, 2025, the management stated that replies were sent to respective EPA.

The DAC directed the management to submit proper clarification / reply to Audit. DAC further, directed to provide reasons for non-submission of reports to EPA. No further progress was reported till finalization of the report.

Audit recommends to investigate the violation of the National Environmental Quality Standards, and that remedial measure be taken for implementation of Standards in true letter and spirit.

[DP No. 2963]

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, Karachi. The company was incorporated on June 5, 1950 after the promulgation of Pakistan Petroleum Production Rules, 1949. The company's shareholding is divided between the Government of Pakistan and general public, having 75 percent, and 25 percent shares of the company.

The principal activities of the company are exploration, development and production of Pakistan's natural reserves of oil and gas. However, recently, the Company has started to actively venture into the field of mining through new initiatives. PPL holds mineral rights in Balochistan through Bolan Mining Enterprises (BME), a 50:50 joint operations between PPL and Government of Balochistan.

PPL has two subsidiaries namely PPL-Europe and PPL Asia. PPL acquired on March 21, 2013, 100% shareholding of MND Exploration and Production Limited (MND), a company incorporated in England and Wales. Subsequent to the acquisition, the name of MND was changed to PPL Europe E&P Limited (PPLE). The company holds 38,793,216 ordinary shares of £1 each, representing 100% of the share capital. The investment amounts to USD 13.647 million as at June 30, 2024. PPLE's main objective is exploration and production of oil and gas and currently it has working interest in two producing fields and three exploration blocks in Pakistan, as well as one exploration block in Yemen.

On July 22, 2013, PPL established another subsidiary, PPL Asia E&P B.V. (PPLA), a company incorporated in Amsterdam, Kingdom of Netherlands. The company holds 100% of the share capital. PPLA's main objective is exploration and production of oil and natural gas resources, and it owned 100% interest in Block 8, Iraq, under the Exploration, Development and Production Service Contract (EDPSC) with the Midland Oil Company, Iraq (MdOC). The contract was terminated / expired in August, 2022. The close-out proceedings were finalized in January, 2025 and all the outstanding liabilities and receivables

were settled between PPL and MdOC. PPLA is not conducting any business since August, 2022.

(B) Comments on Audited Accounts

The working results of the company for the FY 2022-23 as compared to previous years are given below:

(Rs in million)				
Heads	2023-24	2022-23	2021-22	2020-21
Sales	288,797.413	288,053.039	203,810.768	149,278.578
Operating Expenses & Royalties	99,416.252	96,153.786	71,773.587	63,003.338
Gross Profit	189,381.161	191,899.853	132,037.181	86,275.240
Field Expenditure and Other Operating Expenses	142,804.860	147,507.269	84,747.119	64,357.855
Other Income	16,977.290	17,404.708	14,190.164	4,080.091
Profit before Taxation	159,782.150	164,911.977	98,937.283	68,437.946
Taxation	45,473.073	67,690.363	44,584.587	16,154.752
Profit after Taxation	114,309.077	97,221.614	54,352.696	52,283.194

(Source: Consolidated Annual Audited Accounts)

2.3.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 384,743.682 million were raised in this report during the current audit of PPL. This amount also includes recoverable amount of Rs 193,816.085 million as pointed out by the Audit. Out of this amount, PPL reported recovery of Rs 5,665.513 million which was also verified 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	Irregularities	
A	Financial Management	208,281.853
B	Operations Management	151,970.435
C	Procurement Management	7,612.644
D	Corporate Governance	-
E	HSEQ and Sustainability Management	-
F	HR/Employees Related Irregularities	-
2	Others	16,878.750
	Total	384,743.682

2.3.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	% age of Compliance
2009-10	2	2	0	100
2010-11	8	8	0	100
2011-12	6	3	3	50
2012-13	1	1	0	100
2013-14	6	5	1	83
2014-15	9	5	4	56
2015-16	11	11	0	100
2016-17	15	10	5	71
2017-18	11	8	3	73
2018-19	16	9	7	56
2019-20	4	1	3	25
2021-22	2	0	2	0
Total	91	63	28	69%

The overall compliance of PAC directives needs to be further improved especially for the years, 2011-12, 2014-15, 2019-20 and 2021-22.

2.3.4 Audit Paras

Financial Management

2.3.4.1 Non-payment of Gas Development Surcharge (GDS) despite receipt of sales proceeds from GENCO-II – Rs 77,266 million

According to Section 3(1) of Natural Gas (Development Surcharge) Ordinance 1967, “every company shall collect and pay to the Central Government a development surcharge equal to the differential margin in respect of natural 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 PPL for the FY-2023-24, it was observed that the company did not deposit Gas Development Surcharge (GDS) of Rs 77,266 million despite receipt of sales proceeds from GENCO-II. PPL received payments from GENCO-II and booked these payments against gas charges, sales tax and federal excise duty etc. Other taxes were paid to Government but the amount of GDS of Rs 77,266 million was outstanding since 2019 and was not paid in proportion of sales proceeds received from GENCO-II. This resulted in non-payment of GDS despite receipt of sales proceeds from GENCO-II.

Audit is of the view that weak regulatory compliance resulted in non-payment of Gas Development Surcharge into Government treasury despite receipt of sales proceeds from GENCO-II.

The matter was reported to the management in August, 2024. The management stated in the DAC meeting held on January 10, 2025 that GENCO-II had consistently defaulted settlement of gas sales bills. Due to this continuous delay, PPL was unable to make timely payments of GDS into the Government Treasury, as a substantial portion of the sales invoices to GENCO-II consisted of GDS. Audit held that GENCO-II indicated on payment advice that payment was being made for all components of invoice, hence the GDS payment was also to be proportional to the sales price received from the buyer on the pattern of other duties and taxes.

The DAC directed the management to provide invoice-wise detail of amount recovered from GENCO-II and deposited in Government treasury on account of taxes and GDS. DAC also directed the management to immediately

deposit outstanding dues in Government treasury. No further progress was reported till finalization of the report.

Audit recommends to deposit GDS into Government treasury in proportion of receipt of sale proceeds besides implementing decision of DAC.

[DP No. 3328]

2.3.4.2 Non-recovery of trade receivables and other receivables from gas companies and refineries – Rs 69,555.076 million

According to Clause 7 relating to price and payment of Gas Sale Agreement between PPL and various customers, the buyer shall pay seller's monthly invoice, within 30 days on receipt of invoice. Similarly, as per Crude Oil Sales Agreement, the refinery shall pay due amount within two months from the date of receipt of invoice from each partner of the producing field.

During audit of PPL for the FY 2023-24, it was observed the total outstanding amount increased from Rs 497,440.676 million as at June 30, 2023 to Rs 566,909.265 million as at June 30, 2024 and an amount of Rs 69,132.511 million was increased during the FY 2023-24 against refineries, gas companies, and others as detailed below.

(Rs in million)			
Name of Refinery / Gas Company/others	2023-24	2022-23	Increase in Trade Debts
PARCO	1,427.549	662.478	765.071
NRL	522.362	503.329	19.033
ENAR Petroleum Refining Facility	184.824	169.342	15.482
OGDCL	44.762	1.164	43.598
Total-Oil	2,179.497	1,336.313	843.184
SNGPL	265,417.802	251,135.388	14,282.414
SSGC	291,452.772	238,067.533	53,385.239
GENCO-II	4,180.235	6,620.217	-2,439.982
GENCO-II (Take or Pay amount)	3,000	-	3,000.000
Other	679.194	617.538	61.656
Total – Gas	564,729.768	496,440.676	68,289.327
Grand Total Trade Debts	566,909.265	497,776.989	69,132.511

Furthermore, PPL could not recover outstanding amount of Rs 422.565 million from M/s Cnergyico and M/s E-gas and created provision for doubtful

debts amounting to Rs 422.456 million in its financial statements. Audit held that provision against the entities that were actively doing business. Unjustified creation of provision for doubtful debts amounting to Rs 422.565 million. This resulted in significant increase in outstanding receivables of Rs 69,555.076 million.

Audit is of the view that due to poor financial management, the management failed to recover the outstanding amount.

The matter was reported to the management in October, 2024. The management in the DAC meeting held on January 10, 2025 stated that an amount of Rs 79.810 Billion had been recovered. Audit pointed out that the amount reported by the management had recoveries from previous years. An amount of Rs 1,464.123 million was recovered from SNGPL pertaining to the FY 2023-24 and verified by Audit.

The DAC directed the management to get the recovered amount verified by Audit within a week and expedite recovery of balance outstanding amount of Rs 68,090.953 million. No further progress was reported till finalization of the report.

Audit recommends to recover the remaining outstanding dues from refineries, gas companies and other buyers.

[DP Nos. 3327, 3333 & 3331]

2.3.4.3 Undue retention of Lease Extension Bonus – Rs 45,072.924 million

According to clause 4.1.10 Pakistan Petroleum Policy, 2012 read with clause 35 of Exploration and Production Rules, 2013, after the expiry of a lease period, the Authority may renew or re-grant, as the case may be, the lease for up to a further five years, provided the lease holder agrees, at least one year prior to the expiry of the lease period, to pay, 15% of wellhead value of petroleum produced to the Federal Government. If such agreement is not concluded the Authority may invite bids from prequalified companies for the grant of a lease over the same, area as the expiring lease, for a term of ten years or such lesser period for which commercial production is expected to continue.

During audit of PPL for the FY 2023-24, it was observed that the Economic Coordination Committee on December 13, 2016 approved the extension of Sui lease w.e.f. June 01, 2015 under Petroleum Policy, 2012 and

E&P Rules, 2013. According to rules mentioned above, PPL had to pay Lease Extension Bonus but the Company did not pay the amount despite the fact that it was charging Lease Extension Bonus from buyers. This resulted in undue retention of Lease Extension Bonus of Rs 45,072.924 million as on June 30, 2024 along with other obligations as per Note 24 of Annual Report of PPL for the FY 2023-24.

Audit is of the view that due to poor regulatory compliance, the management got the benefit of operating Sui field and sale of natural gas on higher price as per Petroleum Policy, 2012 without depositing the collected amount of Lease Extension Bonus of Rs 45,072.924 million.

The matter was reported to the management in August, 2024. In DAC meeting held on January, 10, 2025 management stated that PPL would be liable to pay the Lease Extension Bonus along with Production Bonus / Social Welfare after signing of Sui Development & Production Lease / PCA. Once the lease deed and PCA were signed, PPL would discharge its liability as per the payment schedule prescribed in the ECC decision. Audit pointed out that PPL was retaining the amount of Lease Extension Bonus despite receiving it from buyers and its inclusion in the price of gas for retail consumers. Further, approved payment schedule was not implemented, hence lump sum payment would have to be made.

DAC directed the management to pursue the signing of Development and Production Lease by DG PC to ensure early payment of Lease Extension Bonus. No further progress was reported till finalization of the report.

Audit recommends to pay the Lease Extension Bonus and other obligations at the earliest besides taking up the matter relating to issuance of D&PL with DG (PC).

[DP No. 3325]

2.3.4.4 Non-recovery of take or pay amount despite less off-take in violation of agreement – Rs 13,500 million

According to Clause 10.1 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, in each contract year the Buyer shall accept and pay for a minimum annual quantity of specification gas

equal to seventy two and half percent (72.5%) of the Adjusted Annual Contracted Quantity at the notified price provided that if the buyer takes less than the Take or Pay Quantity then, it shall nonetheless pay for the Tak-or-Pay Quantity. Monthly billing will be carried out using the Month's Revised Take-or-Pay Quantity. Further, as per Clause 6.1 of GSA, 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 2023-24, it was observed that as per the agreement, GENCO-II was obligated to either take delivery of Annual Contracted Quantity of gas or make payment for the less off-take than minimum annual quantity i.e. 72.5% of adjusted Annual Contracted Quantity. PPL did not charge the take or pay amount of Rs 13,500 million despite failure of GENCO-II in buying guaranteed quantity of gas up to the FY 2023-24. This resulted in non-recognition and non-recovery of take-or-pay amount from GENCO-II.

Audit is of the view that due to weak contract management, PPL failed to recover the take or pay amount but it remained unable to sell the surplus gas to third party. This resulted in understatement of receivables in the Financial Statements and also raised concerns for the financial health and liquidity of the organization.

The matter was reported to the management in August, 2024. In a DAC meeting held on January 10 2025, management stated that due to ongoing efforts to recover the Take or Pay amount and the complexities of the situation, PPL's current accounting treatment was aligned with IFRS-15. If uncertainties associated with the receipt of revenue were resolved, then PPL would recognize further revenues in future. Audit held that as per IAS-18, take or pay amount was required to be recognized as revenue because it met the criteria envisaged in IAS-18 that any future economic benefit associated with the item of revenue would flow to the entity and the amount of revenue could be measured with reliability. Take or pay amount was recoverable under the GSA executed between PPL and GENCO-II.

The DAC directed the management to take up the matter regarding recognition of revenue as per take or pay clause of GSA from an independent source (ICAP) and pursue the recovery of take or pay amount with GENCO-II. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC and ensure recovery of Take or Pay amount at the earliest.

[DP No. 3326]

2.3.4.5 Undue retention of funds of BESOS – Rs 1,610.461 million

According to orders of Supreme Court of Pakistan in case numbers C.A.421/2018, 422/2018 and 423/2018 dated October 22, 2020, Benazir Employees Stock Option Scheme (BESOS) was executed in breach of Article 154 of the Constitution of the Islamic Republic of Pakistan. Further, according to the Privatization Commission of Pakistan (PCP) and Finance Division instructions vide letter dated December 30, 2020 and May 9, 2022 respectively, fund maintained by PCP had been closed since December 2020, therefore, the amounts retained on account of Employees Empowerment Fund be directly deposited in the Federal Consolidated Fund.

During audit of PPL for the FY 2022-23, it was observed that PPL Employees Empowerment Trust (“Trust”) was established vide a Trust Deed under BESOS on September 14, 2009. The Trust held 7.35% shareholding of the Company in FY 2023-24. After the decision of SCP and Finance Division’s instructions mentioned above, PPL was to disband the Trust and deposit the funds of Rs1,610.461 million under the BESOS in the Federal Consolidated Fund. As on June, 30, 2024, an amount of Rs 1,610.461 million was withheld by the Trust / PPL. However, the order of the Supreme Court of Pakistan and instructions of Finance Division were not implemented despite lapse of more than 4 years. This resulted in undue retention of funds of BESOS amounting to Rs 1,610.461 million.

Audit is of the view that due to weak regulatory compliance, management of PPL retained BESOS funds amounting to Rs1,610.461 million in violation of orders of the Supreme Court of Pakistan, Privatization Commission of Pakistan and Finance Division.

The matter was reported to the management in August, 2024. In DAC meeting held on January 10, 2025 management stated that PPL had requested MoE vide letter dated May 16, 2022 to issue guidelines regarding winding up of trust and the fund. PPL also requested Finance Division / MoE to settle BESOS funds against long outstanding circular debt of PPL. A response on PPL’s

request was still awaited. Audit pointed out that Finance Division had issued instructions on May 9, 2022 for deposit of BESOS funds in Federal Consolidated Fund directly.

The DAC directed the management to pursue the matter with Petroleum Division and Finance Division. No further progress was reported till finalization of the report.

Audit recommends expeditious deposit of BESOS amount of Rs 1,610.461 million in Federal Consolidated Fund. Audit also recommends that Petroleum Division takes appropriate steps to comply with the directives of the Finance Division.

[DP No. 3330]

2.3.4.6 Non-receipt of profit share from BME and non-utilization of Grant for Local Welfare – Rs 965.768 million

According to Section 227 and 240 of the Companies Act, 2017, the directors shall make out and attach to the financial statements, a report with respect to the state of the company's affairs and a fair review of its business, the amount (if any), that the directors recommend should be paid by way of dividend and the amount (if any), they propose to carry to the Reserve Fund, General Reserve or Reserve Account.

During audit of PPL for the FY 2023-24, it was observed that Bolan Mining Enterprise (BME) was established in 1974 as 50:50 Joint Venture (JV) between PPL and GoB with PPL as operator of the JV. BME earned net profit of Rs 1,463.536 million for the FY 2023-24 but no profit / dividend was distributed between JV partners i.e. PPL and GoB. This resulted in non-receipt of profit share / dividend of Rs 731.768 million by PPL and GoB leading to less net profit of the Company and subsequent less payment of dividend to GoP. Moreover, the management did not allocate Grant for Local Welfare funds of Rs 234.000 million during FYs 2018-19 to 2023-24 for CSR activities in producing areas. The management could not formulate a framework for Grant for Local Welfare despite lapse of more than five years. This resulted in non-allocation / utilization of funds of Rs 234.000 million for Local Welfare activities in BME operating areas like Khuzdar, Dilband Mastung, Naukundi, District Chagai etc.

Audit is of the view that non-receipt of profit share of Rs 731.768 million from BME deprived the GoP and GoB of revenue. Further, due to non-formulation of framework for utilization of Grants for Local Welfare, funds of Rs 234.000 million could not be allocated / utilized in BME operating areas.

The matter was reported to the management in October, 2024. In DAC meeting held on January 10, 2025, PPL stated that dividend against BME profits was not being distributed among working interest owners (PPL/GoB) as the profits was being retained to finance BLZ, a project of BME and the accounts of BME were not finalized yet. Audit contended that preparation of the financial statements was also the responsibility of the management. Moreover, delay in preparation of financial statements could not justify the profit sharing among the JV partners. Further, BLZ project was substantially delayed and the initial operating and financial agreements were not finalized yet.

The DAC directed the management to place the matter before the Management Committee within two months. DAC further directed the management to formulate the CSR framework and expedite the allocation / utilization of available funds. No further progress was reported till finalization of the report.

Audit recommends to expedite receipt of profit share for the FY 2023-24 and formulate framework for allocation / utilization of Local Welfare funds.

[DP Nos. 3426 & 3452]

2.3.4.7 Non-deposit of unclaimed dividend in Government Account – Rs 311.624 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 followed by final notice to be published in two daily newspapers. If no claim is made before the company by the shareholders, the company shall deposit the unclaimed or unpaid amount to the credit of Federal Government.

During audit of PPL for the FY 2023-24, it was observed that the company did not deposit unclaimed dividend of Rs 311.624 million in Government Account and appropriate action was not taken as required under the

law. This resulted in non-deposit of unclaimed dividend in the Government Account.

Audit is of the view that non-compliance of the Companies Act, 2017 resulted in non-deposit of unclaimed dividend of Rs 311.624 million to the Federal Government Account.

The matter was reported to the management in August, 2024. In a DAC meeting held on January 10, 2025, it was replied that the management was issuing notices to the shareholders and publishing the notices in the newspapers. However, the Company was unable to deposit the unclaimed or unpaid dividend amount with the Federal Government since no bank account had been advised by the Federal Government / SECP for the said purpose.

DAC directed the management to pursue the matter with relevant authorities. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter with competent fora as per law and transfer the unclaimed amount to the Federal Government. Audit also recommends that Petroleum Division should take up the matter at the appropriate forum to resolve a long outstanding issue.

[DP No. 3332]

Operational Management

2.3.4.8 Non-achievement of operational targets of production and addition in reserves

According to Article 30.1 of Model Petroleum Concession Agreement, the Operator shall conduct all exploration, exploitation, drilling, development, and production operations in accordance with Good International Oilfield Practices and the principles and standards as laid down in the Rules. Further, according to Annual Business Plans / Budget for the FYs 2022-23 and 2023-24, operational targets for seismic survey, drilling of wells and production targets were fixed with the approval of BoD.

During audit of PPL for the FY 2023-24, it was observed that the management could not achieve operational targets set with the approval of BoD in Annual Budget for the FYs 2022-23 and 2023-24 as follows:

Activity / Description	UoM	2023-24			2022-23		
		Targets	Achieved	% age	Targets	Achieved	% age
Seismic Survey 2D	Line KMs	2,270	1597	70	1,845	1,416	77
3D Seismic Survey	Sq. KM	200	-	-	-	-	-
Wells	No.	17	15	88	16	12	75
Production	MMCFDe	839	711	85	919	815	87
Production (Exploration 2023-24)	MMCFDe	123	10	8	-	-	-
2P reserves	MMCFDe		2,351	-	-	2,560	-
Addition / Revision in Reserves	MMCFDe	1,434	1,121	78	-	-	-
Reserve Replacement Ratio	% age	-	21	-	-	76	-
Reserve to Production Ratio	Years	-	9	-	-	9	-

As evident from the above table, production against the exploratory efforts for the FY 2023-24 remained at low level (8%) whereas target for addition and revision in Proved and Probable (2P) reserves also remained at the level of 78%. As evident from the above table, 2P reserves were decreased from 2,560 MMCFDe to 2,351 MMCFDe registering 8.16% decrease during the FY 2023-24. Reserve Replacement Ratio (RRR) remained at 21% whereas Reserve to Production Ratio (R/P ratio) was at the level of 9 years showing that 2P reserves would be diminished within 9 years.

Audit is of the view that poor achievement of targets reflected less exploration and production efforts. This was also pointed out at poor regulatory oversight by the BoD.

The matter was reported to the management in August, 2024. In DAC meeting held on January, 2025, management stated that operational targets set in the Annual Business Plans and five year plan were based on the best available forecasts. Inherently, E&P sector was a high-risk venture. In exploratory wells, success was never guaranteed, as it depended on various factors like geological uncertainties, market conditions, economic feasibility, and operational constraints. Despite one's best efforts, not all exploratory wells could yield commercially viable resources.

The DAC directed the management to get the relevant record / figures of production targets approved by the Board and actual figures verified by Audit.

DAC further directed to ensure achievement of operational targets. No further progress was reported till finalization of the report.

Audit recommends to justify the non-achievement of operational targets and strenuous efforts to improve 2P Reserve Replacement and Reserve to Production ratios.

[DP Nos. 3338 & 3449]

2.3.4.9 Loss due to delay in completion of gas production projects - Rs 85,589.485 million

Article 30.1 of Model Petroleum Concession Agreement states that the Operator shall conduct all exploration, exploitation, drilling, development, and production operations in accordance with Good International Oilfield Practices and the principles and standards as laid down in the Rules. Consistent with this requirement, the Operator shall endeavour to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of Petroleum.

During audit of PPL for the FY 2023-24, it was observed that in two projects the management failed to convert the discoveries into production despite lapse of more than ten years. Discovery in Gambat South was announced in 2013 whereas discovery in Hatim-Faiz was announced in 2015 but the management could not complete the production projects. The fields have yet not started any production. In case of Gambat South, the production was delayed firstly due to litigation with the contractor. However, even after vacation of stay in September 2023, the process of hiring of contractor for balance work could not be initiated till finalization of the report. The delay enhanced the project cost from US\$ 77.000 million to US\$ 110.100 million. This resulted in non-injection of 60 MMCFD gas in case of GPF-III and 56 MMCFD gas in Hatim-Faiz gas project and cost escalation of Rs 8,937.000 million in GPF-III. Overall, 116 MMCFD gas could not be injected in the system which also deprived the Company of an annual potential revenue of Rs 76,652.485 million. In this regard, BoD directives given on May 9, 2024 and May 13, 2024 were also not adhered to by the management.

Audit is of the view that due to weak project management, GPF-III and Hatim-Faiz gas projects were delayed for more than 9 to 11 years causing an

overall loss of Rs 85,589.485 million to the Company. Besides this also leads to worsening gas shortage problem in the country.

The matter was reported to the management in August-September, 2024. In DAC meeting held on January 10, 2025, management stated that following the vacation of the stay order, a way forward and execution strategy was formulated and presented to PPL's Board, which subsequently approved the initiation of the bidding process on February 26, 2024. Work on subsequent tendering for hiring of pertinent services was ongoing. Another, development project namely Hatim-Faiz gas project was also under process and SNGPL showed interest in purchasing gas in June, 2023. PPL requested DG Gas for allocation of gas to SNGPL in August, 2023 which was pending.

The DAC directed the management to get the stated stance verified by Audit and expedite the remaining work of GPF-III and pursue case for allocation of gas for Hatim-Faiz gas project.

Audit recommends that the time lag between discoveries and production may be minimized. Proper planning is the key in award of contracts to minimize the risk of litigation. The GPF-III and Hatim-Faiz gas projects may be completed on priority basis to ensure injection of indigenous gas in the system.

[DP Nos. 3340 & 3461]

2.3.4.10 Loss due to delay in completion of exploratory & development wells – Rs 32,728 million

According to Article 30.1 of Model Petroleum Concession Agreement, the Operator shall conduct all exploration, exploitation, drilling, development, and production operations in accordance with Good International Oilfield Practices and the principles and standards as laid down in the Rules. Further, according to Annual Business Plans / Budget for the FYs 2022-23 and 2023-24, development projects were undertaken with approval of BoD.

During audit of PPL for the FY 2023-24, it was observed that there was inordinate delay in completion of development works relating to 35 wells (15 development wells and 20 exploratory wells) and 20 development projects (Annex-5). This resulted in delayed production and non-achievement of production target from exploration of 123 MMCFDe causing valuing loss of revenue of Rs 32,728 million for the FY 2023-24.

Audit is of the view that due to inefficient project management and lack of adequate oversight by BoD, the Company failed to achieve substantial production enhancement and reserves.

The matter was reported to the management in August-September, 2024. In DAC meeting held on January 10, 2025, the management stated that 10 exploration and 7 development wells and the projects, appearing in CWIP at year end, were at various stages of completion. Audit contended that management did not share updated status of ongoing wells and projects which were started in previous years.

The DAC directed the management to share the complete detail / updated status of 35 wells and 20 development projects on case-to-case basis. No further progress was reported till finalization of the report.

Audit recommends to improve the system of project execution and monitoring to complete 35 wells and 20 development projects besides expediting their completion.

[DP No. 3428 & 3448]

2.3.4.11 Loss of production due to persistent lesser offtake by GENCO-II - Rs 12,400.404 million

According to Clause 6.1 of Gas Sales Agreement for Kandhkot Gas Field executed on October 23, 2017 between PPL and Central Power Generation Company Limited, “the seller will supply 180 MMCFD gas according to specification, which will gradually be increased to 200 MMCFD per contract year.” As per Annual Budget 2023-24, PPL and GENCO-II committed quantity of 157 MMCFD.

During audit of PPL for the FY 2023-24, it was observed that PPL management reported that GENCO-II took only 34,213 MMCF equivalent to 93.734 MMCFD gas against the committed volume of 57,305 MMCF (157 MMCFD) gas, resulting in less offtake of 23,092 MMCF gas. Due to less offtake by GENCO-II, PPL was forced to curtail its daily production to a level of 98.972 MMCFD. For additional capacity of 50 MMCFD, PPL had approached DG (Gas), but this gas had not been allocated to any other buyer despite the fact that six 3rd parties (E-gas, K-Electric, FKPCL, Tabeer Energy, UGDCL and Engro Power) had shown interest in purchasing natural gas from Kandhkot gas-field.

This resulted in revenue loss of Rs 12,400.404 million due to less production of gas / offtake.

Audit is of the view that weak contract management coupled with non-pursuance of case with DG (Gas) for 3rd party allocation resulted in loss of revenue amounting to Rs 12,400.404 million.

The matter was reported to the management in September, 2024. In DAC meeting held on January 10, 2025, management stated that the matter was under process.

The DAC directed the management to pursue the matter with DG (Gas) regarding reallocation of surplus gas to 3rd party. DAC further directed the management to ensure guaranteed off-take of natural gas as per clauses of the GSA executed with GENCO-II. No further progress was reported till finalization of the report.

Audit recommends to ensure optimum off-take as per contract / commitment with GENCO-II to avoid revenue loss besides obtaining approval for sale from Kandkot gas field to third party in order to maximize the sales revenue.

Note: The issue was also reported earlier in the Audit Reports 2023-24, 2022-23, 2021-22, 2020-21 and 2019-20 vide para numbers 2.3.4.7, 2.3.6.11, 2.3.6.3 and 2.3.4.2 having financial impact of Rs 5,480.000 million, Rs 11,529.542 million, Rs 6,678 million and Rs 21,142.107 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 3432]

2.3.4.12 Loss due to non-finalization of Unitization Agreement for 05 straddled fields – Rs 9,403.290 million

According to Clause 64(1), (2) & (3) of Pakistan Onshore Petroleum (Exploration and Production) Rules, 2013, if a petroleum deposit extends across more than one license or lease area held by different holders of petroleum right, then such holders shall endeavour to agree to explore and exploit the deposit jointly in the most efficient manner. Joint exploration and development plans or where one of the deposits has already been developed, a joint unitization plan, together with agreement between them shall be submitted expeditiously to the Authority for approval. If the agreement on joint exploration and development or

unitization plan referred to in sub-rules (1) and (2), is not reached at within a reasonable period of time, the Federal Government may, in the public interest, by notice in writing to all concerned parties, direct to finalize and submit for approval of the Authority relevant plan within the period stipulated in the notice.

During audit of PPL for the FY 2023-24, it was observed that issue of reservoir communication of straddled fields of Shahdadpur, Adam West & Kinza operated by PPL and Sutari Deep, Salamat and Bakhsh Deep operated by UEPL could not be resolved since 2014. UEPL was extracting more gas from the interconnected reservoir depriving PPL of its due share of gas. DG (PC) directed PPL and UEPL to submit a Unitization Agreement in July, 2018 for the Adam West & Salamat fields operated by PPL and UEPL respectively. However, this directive was not implemented by UEPL. The matter relating to unitization of other 02 fields was also pending due to non-conducting of reservoir study. Resultantly, M/s UEPL extracted 118 BCF gas from PPL's share till FY 2022-23 as per estimate of the consultant and there was an addition of 12 BCF gas in the year 2023-24. Being a majority working interest owner in three fields, PPL's share in this loss amounted to Rs 9,403.290 million during the FY 2023-24. Moreover, the issue of gas-field communication also surfaced in two more fields Latif and Kadanwari where PPL and other JV partners could not finalize the technical issues to address reservoir migration problem. As per PPL, UEPL was extracting more gas from the interconnected reservoir depriving PPL of its share of gas but exact volume of gas could not be ascertained due to non-finalization of technical study.

Audit is of the view that weak follow up by PPL resulted in excess extraction of gas from the interconnected reservoirs depriving PPL from its share of gas valuing Rs 9,403.290 million for 2023-24. PPL had to ascertain the quantum of gas in Latif and Kadanwari fields to reach the amount of loss.

The matter was reported to the management in August-September, 2024. The management stated that the matter was sub-judice. Last date of hearing was May 28, 2024. As far as reservoir communication issue of Latif Kadanwari straddled fields was concerned, the final report was awaited as of June 30, 2024. The meeting was planned to decide the way forward and submission of the report to the regulator DG (PC).

The DAC directed the management to pursue the sub-judice case relating to Gambat South with UEPL vigorously. DAC directed the management to get the issue relating to Latif Kadanwari reservoir communication resolved through DGPC at the earliest. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter in the court of law and efforts be made for early finalization of Unitization Agreements and reservoir communication study in other three straddled fields. Audit also recommends Petroleum Division to take effective measures to resolve the issue on urgent basis.

Note: The issue was also reported earlier in the Audit Reports 2023-24 vide para numbers 2.3.4.6 having financial impact of Rs 76,000.000 million. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 3429 & 3433]

2.3.4.13 Loss due to non-monetization of gas discoveries – Rs 7,740.511 million

Article 30.1 of Model Petroleum Concession Agreement states that the Operator shall conduct all exploration, exploitation, drilling, development, and production operations in accordance with Good International Oilfield Practices and the principles and standards as laid down in the Rules. Consistent with this requirement, the Operator shall endeavour to minimize exploration, development, production and operation costs and maximize the ultimate economic recovery of Petroleum.

During audit of PPL for the FY 2023-24, it was observed that PPL could not monetize five gas discoveries namely Margand (10.7 MMCFD - December, 2019), Naushahro Feroz-NF Hor-1 (1.3 MMCFD of tight gas - July, 2017), Badeel X-1 (23.4 MMCFD - July, 2018), Jhim East X-1, Shahbandar block (13.69 MMCFD) and Dolphin X-1 (2016). Resultantly, 49.09 MMCFD gas and 270 BPD of crude oil was not being injected in the system. This resulted in annual loss of revenue of Rs 7,740.511 million for the FY 2023-24. It was also observed that appraisal for two discoveries (Dhok Sultan-3 and Savi Raga) could not be made by the management resulting in delay in development of these sites.

Audit is of the view that poor operational performance resulted in delayed monetization of discoveries which not only rendered Company's investment on exploration and drilling activities fruitless but also delayed the potential revenue. Such lapses impact the domestic production of oil and gas.

The matter was reported to the management in August-September, 2024. In DAC meeting held on January 10, 2025, management stated that Morgand feasibility study was planned and after the study, way forward would be decided. Process for other six gas discoveries had also been initiated.

The DAC directed the management to expedite the work on monetization of seven discoveries. No further progress was reported till finalization of the report.

Audit recommends justification of delayed-monetization of discoveries besides expediting production from these seven discoveries. Audit emphasizes reducing the time lag between discoveries and production.

[DP Nos. 3447 & 3445]

2.3.4.14 Irregular utilization of CSR Funds in violation of CSR Policy – Rs 2,378.389 million

According to para 1 of Part-II of CSR Policy, 2013, keeping in view the Company's desire to contribute to uplift of deprived areas of society in general and the communities in and around company's production and exploratory sites in particular, a minimum of 1.5% of annual profit will be utilized. Further, percentages of the sectors are allocated with an allowable variation of 15% in each sector including health care and education (22%), water Supply And Water Resources Development (16%), civic amenities inclusive of provision of utilities (30%), infrastructure development (5%) and Emergency Relief (5%). Further, according to DG Gas letter dated February 25, 2003 PM's directive was conveyed for provision of free gas to residents of Sui villages within radius of 3 KMs of purification plant. However, the initial gas connection charges at Rs1000 per household will be paid by each consumer.

During audit of PPL for the FY 2023-24, it was observed that the management of PPL utilized CSR funds in violation of CSR Policy. Out of total funds of Rs 3,702.760 million, 42% of funds amounting to Rs 1,545.583 million were spent on provision of utilities i.e. supply of natural gas to Sui town only

whereas CSR Policy envisaged 30% of spending on this account in all E&P areas. The Company spent Rs 489.420 million on education & training and research which was 13.2% instead of 22% as envisaged in the CSR Policy. Similar is the position in other sub-sectors. This resulted in utilization of CSR funds amounting to Rs 2,378.389 million against the requirement of the policy. Moreover, in compliance of PM's directives conveyed through DG Gas letter dated February 25 2003, PPL delivered 1,404,059 MMBTU gas to SSGC for supply of free gas to residents of Sui villages / colonies during the FY 2023-24. Consumer-wise data was not available with SSGC and PPL whereas one-time connection fee was also not collected. Monthly consumption of 117,005 MMBTU was on higher side throughout the year in disregard to seasonal variation. Hence charging of huge amount of Rs 1,545.585 million on account of free gas to CSR fund without any check and balance was unjustified.

Audit is of the view that due to violation of CSR Policy, the CSR funds were utilized in excess proportion in provision of free gas than envisaged in the Policy *ibid* whereas other areas remained deprived of their due share. Further, failure in full compliance of PM's directives for free supply of gas in Sui town resulted in unjustified charging of huge quantity of free gas to CSR funds.

The matter was reported to the management in August, 2024. In DAC meeting held on January, 10, 2025, management stated that percentages of spending in each sector were within allowable variation of 15% plus / minus. Audit contended that reply was not tenable because amount spent on education was Rs 814.610 million (22%) of total CSR funds whereas its 15% came to Rs 122.195 million. Hence, allowable amount limit was Rs 936.800 million in case of plus 15% or Rs 692.415 million in case of minus 15% whereas actual spending was Rs 489.420 million. Similar is the position in all other sub-sectors. In case there was a need for change in the proportion of allocation to different sectors, justification for the same based on evidence and approval thereof through the Board was necessary.

The DAC directed the management to adhere the internal policy in terms of share of each sector and place the matter before the Board. DAC further directed the management to pursue the case with SSGC for full compliance of PM directives regarding supply of free gas to Sui town under CSR funds. No further progress was reported till finalization of the report.

Audit recommends to ensure the spending of CSR funds under each sector as per CSR policy , or justify changes in proportion and get approval thereof. Audit also recommends to take up the matter with Petroleum Division and SSGC for full compliance of PM's directives regarding supply of free gas to Sui town within three KMs.

[DP No. 3451 & 3342]

2.3.4.15 *Loss due to curtailment in daily production from Sui gas-field and production shortfall in other seven gas fields – Rs 1,730.356 million*

According to Article 30.1 of Model Petroleum Concession Agreement, the Operator shall conduct all exploration, exploitation, drilling, development, and production operations in accordance with Good International Oilfield Practices and the principles and standards as laid down in the Rules.

During audit of PPL for the FY 2023-24, it was observed that daily production from Sui gas-field was curtailed on request of SNGPL due to its line pack issues. Only sample of 22 days was taken for the FY 2023-24 where production remained at 230 MMCFD level or less. SNGPL reduced off-takes occasionally due to less sales of RLNG and pressure was built due to incoming cargos. This resulted in curtailment in production and shortfall in production target from Sui gas field leading to potential revenue loss of Rs 975.270 million. Further, production from 6 gas fields also declined sharply during the year causing potential revenue loss of Rs 525.761 million. Moreover, PPL management could not achieve production target for Adhi gas field and there was shortfall of 5 MMCFD / 1825 MMCF gas valuing Rs 229.325 million. Resultantly, PPL sustained potential revenue loss aggregating to Rs 1,730.356 million from eight gas fields.

Audit is of the view that due to forced curtailment of production from Sui gas field and sharp decline in 6 other gas fields, PPL sustained huge revenue loss of Rs 1,730.356 million.

The matter was reported to the management in October, 2024. In DAC meeting held on January 10, 2025, management stated that the curtailment not only hindered ability to meet production targets but also introduced additional challenges in managing field operations. PPL management had taken several actions during FY 2023-24 to mitigate the impact and increase the gas off-takes. PPL has formally raised this issue with SNGPL.

The DAC directed the management to pursue the matter with DG (Gas) to resolve the issue. No further progress was reported till finalization of the report.

Audit recommends to take up the matter with Petroleum Division for early resolution of the issue.

[DP Nos. 3411, 3430 & 3346]

2.3.4.16 Delay in approval of Operating and Financial Agreements of BLZ project

According to project feasibility study conducted for Barite, Lead and Zinc (BLZ) project, hiring of Project Management Consultant (PMC), land acquisition and EPCC contractor would be completed by first quarter of 2025, project execution and construction phase would start from second quarter of 2025 and project completion was visualized in second quarter of 2028.

During audit of PPL for the FY 2023-24, it was observed that PPL entered into a joint venture with Government of Balochistan by name of Bolan Mining Enterprises (BME) for mining in Balochistan. BME acquired Mining Lease (ML) covering 30 Sq. Kms for the project in 2021 from Mine and Mineral Development Department (MMDD), Balochistan. BME, however, failed to execute Operating Agreement (OA) and Financial Agreement (FA) with joint venture partner despite lapse of more than three years. Consequently, hiring work on the project was halted. It was also observed that BME applied for 100 sq. Km mining lease for BLZ Project but MMDD, Balochistan withheld 70 sq. km of lease area due to absence of feasibility study by BME. As per PPL, 70 sq. km also had high potential of reserves.

Audit is of the view that due to weak project management, the execution of initial agreements with the JV partner could not materialize in time. Consequently, the commercial production which was expected to commence in FY 2024-25 was delayed beyond the initial target.

The matter was reported to the management in October 2024. In DAC meeting held on January 10, 2025, management stated that the GoB in the meeting dated May, 2024 approved operating agreement and methodology of financial agreement. Matter was under deliberation with GOB over terms and

conditions of the operating and financing agreements. Feasibility study for the BLZ project was conducted to exploit Barite, Lead, and Zinc minerals within a highly prospective 10 square km area. GoB awarded a ML for 30 square km for the BLZ project, while withholding the remaining 70 square km due to non-availability of feasibility study.

The DAC directed the management to pursue the matter with GoB for early finalization of initial agreements to ensure early start of project and grant of mining lease for remaining area of 70 square km. No further progress was reported till finalization of the report.

Audit recommends to expedite execution of project and pursue the grant of remaining 70 square km of requested mining lease area ensuring realization of potential revenue within scheduled time and operation of BLZ project at optimum level.

[DP Nos. 3431 & 3345]

2.3.4.17 Delay in completion of feasibility drilling in mining lease for Iron ore Project

As per timelines of Nokkundi Iron Ore Project, feasibility study and exploratory drilling of 6000 meters was required to be completed by March 2024.

During audit of PPL for the FY 2023-24, it was observed that BME management acquired a mining lease in Naukandi, District Chagai, Balochistan. As per project timelines, BME was to carry out exploratory drilling of 6000 meters during FY 2021-2022 to finalize feasibility study. However, it could complete only 3,000 meters till December, 2024 leading to delay in initiation of tendering process to install iron ore processing plant.

Audit is of the view that weak project management led to non-completion of feasibility study and delay in installation of iron ore plant at ML (5).

The matter was reported to the management in October 2024. In DAC meeting held on January 10, 2025, management stated that development on Nokkundi iron project (ML-5) was being expedited and feasibility study was in progress.

The DAC directed the management to speed up the progress. No further progress was reported till finalization of the report.

Audit recommends to expedite the completion of project for extraction of iron ore at the earliest, besides fixing responsibility for the delay.

[DP No. 3444]

2.3.4.18 Non-finalization of Gas Sale Agreements (GSAs) / Crude Oil Sale Agreement (COSA)

According to Article 10.2(a) of Model PCA, Working Interest Owners will be allowed to contract with Natural Gas transmission and distribution companies and third parties, other than residential and commercial consumers, for the sale of their share of Natural Gas in Pakistan at negotiated prices in accordance with applicable laws, rules and regulations.

During audit of PPL for the FY 2023-24, it was observed that the PPL management was selling oil and gas to refineries i.e. NRL, PARCO, ARL, PRL and distribution companies i.e. SNGPL and SSGC respectively as Operator / JVP without executing GSAs / COSAs from Tal, Hala, Gambat South, Dhok Sultan and Latif oil and gas fields.

Audit is of the view that weak regulatory compliance resulted in irregular sale of oil & gas without executing COSAs / GSAs with the buyers.

The matter was reported to the management in November, 2024. In DAC meeting held on January 10, 2025, management stated that commercial sale was being made to these refineries as per relevant Letters of Allocation issued by Ministry of Energy. DG (Oil) was currently working on updating the Model COSA. All pending COSAs are therefore on hold by DG (Oil) till the finalization of Model COSA.

The DAC directed the management to finalize COSAs and GSAs with refineries and gas companies respectively. No further progress was reported till finalization of the report.

Audit recommends to justify the position besides finalizing all pending COSAs / GSAs expeditiously.

[DP No. 3343]

Procurement Management

2.3.4.19 Unjustified pre-qualification of suppliers for three years resulting in procurement without open competition – Rs 3,208.612 million

According to Rule 15 of PPRA Rules 2004, a procuring agency, prior to the floating of tenders, invitation to proposals or offers in procurement proceedings, may engage in pre-qualification of bidders in case of services, civil works, turnkey projects and in case of procurement of expensive and technically complex equipment to ensure that only technically and financially capable firms having adequate managerial capability are invited to submit bids.

During audit of PPL for the FY 2023-24, it was observed that the management engaged in pre-qualification of vendor and suppliers for 22 items of goods and services of common use for a period of 03 years, and for specific, technical and complex nature equipment such as wellheads and Christmas tree equipment, well casing & tubing, and drilling bits etc. without mentioning any period. Pre-qualification for common use items and services was conducted without executing framework agreements as required under Rule 16A of PPRA Rules, 2004. PPL finalized 15 procurement cases of goods and services involving an amount of Rs 3,208.612 million through their prequalified vendors and service providers. Pre-qualification for longer period discourages competition and transparency. This resulted in procurement of goods and services worth Rs 3,208.612 million without open competition which tantamount's to mis-procurement.

Audit is of the view that due to violation of PPRA Rules, 2004, pre-qualification of suppliers and service providers for longer period and for unlimited time impaired open competition and transparency of procurement process. Resultantly, 15 items of goods and services were procured through irregular pre-qualifications was unjustified.

The matter was reported to the management in October, 2024. In DAC held on January 10, 2025, management stated that all 22 pre-qualifications of suppliers or contractors against multiple works and supplies were made for three years in compliance with PPRA rule 16A(4) and 2(ha) after its legislation in 2020. Audit pointed out that under Rule 16A, framework agreements for common use items were not provided yet and for specific and technical nature goods or services, no time period was mentioned in approval documents.

The DAC directed the management to seek clarification from PPRA through Petroleum Division regarding the matter. Furthermore, the management is directed to comply with the direction of the of PPRA henceforth. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC and provide framework agreements for pre-qualification of common use items to Audit.

[DP No. 3437]

2.3.4.20 Irregular award of contract having project cost beyond PEC license limit – Rs 995.260 million

According to Clause 14 of ITB of RFQ No. 26152 / bidding documents, the unit work rates quoted by the Bidder should include cost of all materials, labour, equipment, machineries, services, travel, boarding lodging, transport, security, profits, all taxes and royalties and all cost related to HSE compliance at site etc. Further, according to By-law 4 of the PEC Construction and Operation of Engineering Works Bye-laws, 1987, which is mandatory condition as per ITB under Rules 29 & 30 of PPRA Rules, 2004, all constructor's and operator's licenses shall be issued by the Council on the basis of professional engineering content of the constructors' organizations for specific type of work, discipline and category. Furthermore, as per PEC By-laws 4(9) of PEC Bye-laws *ibid*, license to a licensee shall entitle him to construct or operate a project, the total construction and capital cost of which does not exceed the construction and capital cost limited by category of license.

During audit of PPL for the FY 2023-24, it was observed that PPL management awarded contract for construction of access road, well and camp site's location and maintenance work at exploration block at Baska, Balochistan to a pre-qualified contractor in October, 2023. M/s Jaffer Brothers was declared qualified for a project valuing Rs 1,220.000 million despite the fact that their PEC license limit was Rs 1,000 million. In addition, Provincial Sales Tax (15%) was not included in the bid amount of Rs 983.777 million after which total bid amount came to Rs 1,123.211 million exceeding PEC license limit. Another fact was that on March 12, 2024, a framework order of Rs 995.260 million was issued by reducing the quantity of goods and services valuing Rs 115.022 million. In this way, the contract value was kept within PEC license limit of contractor to entertain the pre-qualified contractor.

Audit is of the view that due to defective technical evaluation and violation of eligibility criteria, the contract was awarded beyond PEC license limit and contract value was kept within PEC license limit by excluding PST on services.

The matter was reported to the management in October, 2024. A DAC was held on January 10, 2025, management stated that PEC's license / guidelines did not explicitly state whether these limits include taxes such as the Provincial Sales Tax (PST) or not. The Company ensured compliance with PPRA Rules, as the most advantageous bidder was selected through a pre-qualification process. Audit contended that bidder was declared successful despite having PEC license limit of Rs 1,000 million against the project having estimated cost of Rs 1,220.000 million and PPL granted undue favour to the bidder and contract value was kept within PEC license limit by excluding PST on services.

The DAC directed the management to conduct an initial inquiry and submit report to Audit and PAO for consideration. No further progress was reported till finalization of the report.

Audit recommends to probe into the matter and share report with Audit.

[DP Nos. 3435 & 3455]

2.3.4.21 Irregular procurement of well casing and accessories without open competition – Rs 551.422 million

According to Rule 15 of PPRA Rules 2004, a procuring agency, prior to the floating of tenders, invitation to proposals or offers in procurement proceedings, may engage in pre-qualification of bidders in case of services, civil works, turnkey projects and in case of procurement of expensive and technically complex equipment to ensure that only technically and financially capable firms having adequate managerial capability are invited to submit bids.

During audit of PPL for the FY 2023-24, it was observed that PPL engaged in procurement of oil well casing and accessories for Dhok Sultan-3 well from two pre-qualified vendors by obtaining quotations in February 2024. Pre-qualification was carried out in November, 2018 for supply of casing for a period of three years and five vendors were declared as technically responsive. In February 2024, PPL procured oil well casing and accessories valuing USD\$ \$1,676,226 from M/s Mitsui & Co. and accessories valuing US\$ 366,080

from M/s Vallourec (Mas Associates) aggregating to US\$ 2,042,306 equivalent to Rs 551.422 million. Procurement of goods was made from pre-qualified vendors in February, 2024 after more than five years despite the fact that these vendors were prequalified for a period of three years. Procurement of oil casing and accessories worth Rs 551.422 million without open competition is tantamount to mis-procurement.

Audit is of the view that due to violation of PPRA Rules, 2004, pre-qualification of suppliers and service providers for longer period i.e. five years was unjustified and may impair open competition and transparency of procurement process.

The matter was reported to the management in October, 2024. In DAC meeting held on January 10, 2025, management stated that quotations from the pre-qualified vendors were solicited on October 12, 2023 which was within the five-year period following the pre-qualification conducted in November, 2018. Audit pointed out that under PPRA Rules 15 and 16, prequalification was required to be on tender to tender basis especially for specific and technical nature equipment. In 2020, PPRA Rule 16A was introduced for prequalification for three years for common use items only. PPL's procurement policy specified prequalification for technical equipment for five years which was against the PPRA Rules, 2004.

The DAC directed the management to seek clarification from PPRA through Petroleum Division regarding the matter. Furthermore, the management is directed to comply with the direction of the of PPRA henceforth. No further progress was reported till finalization of the report.

Audit recommends to seek clarification from PPRA and amend Procurement Policy to align it with PPRA rules besides getting the violation regularized from the competent authority.

[DP No. 3438]

2.3.4.22 Non-implementation of Board's Procurement Committee's directives regarding submission of report showing actual utilization

According to Agenda Item No. 03 (195) of Board Procurement Committee meeting held on August, 21, 2023, while reviewing three years Procurement Plan for the FYs 2023-24 to 2025-26, the Committee directed that

actual utilization against the procurement plan for the last ten years, along with assumptions made for significant items of such plan, be submitted to the Committee. The Chairman also inquired about utilization of surplus inventory in hand and advised the management to avoid building of surplus inventory and to utilize and reduce surplus inventory.

During audit of PPL for the FY 2023-24, it was observed that the management did not compile last ten years' utilization report on the plea that it was an extensive activity which included multiple level of identification, consolidation and review of data. The management could not prepare actual utilization report of inventory for a single year and remained unable to report surplus inventory despite lapse of more than one year till October 10, 2024.

Audit is of the view that due to weak monitoring of implementation of Board's directives, the requisite reports of actual utilization and surplus inventory could not be prepared to review the pace of utilization in the light of procurement plans and operational targets of the Company.

The matter was reported to the management in October, 2024. In DAC meeting held on January 10, 2025, management stated that Audit's recommendations were noted and management was working diligently towards finalizing the report on actual utilization against the procurement plan for the last ten years.

The DAC directed the management to submit report to Audit within three months.

Audit recommends to implement the Board's Procurement Committee's directives expeditiously and share the requisite report with Audit.

[DP No. 3440]

2.3.4.23 Delay in disposal of impaired inventory and non-utilization of inventory lying beyond ten years – Rs 2,857.350 million

According to Para 9 of Procurement Policy of PPL, procurement department shall carry out inventory management and planning to ensure optimum inventory stock to be maintained for running smooth operations. Disposal of the materials shall be made either through public auction or direct sale after obtaining necessary management approvals.

During audit of PPL for the FY 2023-24, it was observed that the management failed to dispose of impaired inventory valuing Rs 2,109.000 million despite its approval from BoD. Moreover, PPL reported that slow moving inventory worth Rs 748.350 million was lying in stores beyond 10 years. This resulted in blockage of funds due to excess procurement of stores items valuing Rs 748.350 million.

Audit is of the view that weak inventory management resulted in non-disposal of impaired inventory and blockage of funds on excess procurement of slow moving store items lying idle beyond ten years during the FY 2023-24.

The matter was reported to the management in November, 2024. Management stated that to ascertain the actual condition and usability of all the Drilling & Completion (D&C) inventory, an exercise was conducted in-house by PPL in June, 2022 and to substantiate this internal assessment, the original equipment manufacturers (OEMs) and 3rd party inspection companies were engaged to inspect and finalize the impairment and write-off. Audit contended that as per Report, un-useable inventory valuing Rs 831.000 million was recommended to be disposed-of and inventory valuing Rs 1,540.000 million was recommended to be kept in surplus and its future utilization would to be ascertained.

The DAC directed the management to take action in the light of findings of the report for disposal of impaired inventory and submit report to Audit within three months. DAC further directed the management to submit comprehensive report on the exercise done in FY 2023-24 for identifying the items to be disposed of and action taken. No further progress was reported till finalization of the report.

Audit recommends to expedite disposal of impaired inventory and share comprehensive report regarding utilization of inventory items lying beyond ten years.

[DP Nos. 3436 & 3441]

Corporate Governance

2.3.4.24 Unjustified exemption from the State-Owned Enterprises (Governance and Operations) Act, 2023

According to Sections 17 and 26 to 28 of the State-Owned Enterprises (Governance and Operations) Act, 2023, State-Owned Enterprises shall maintain independent procurement policies with the approval of the Federal Government. A state-owned enterprise must submit to the Federal Government a report on its operations and its subsidiaries for the financial year to which it relates, not later than four months after the end of that financial year in the form prescribed in Schedule-VI. Furthermore, according to Section 9 of the Pakistan Sovereign Wealth Fund Act, 2023 (PSWF Act, 2023), the transfer assets listed in Schedule I shall stand transferred in the Fund as ultimate owner and their valuation in terms of Schedule II may be approved by the Federal Government subsequently. Under Section 50 of the PSWF Act, 2023 the state-owned enterprise majority owned by the Fund shall be exempt from the applicability of the State-Owned Enterprises (Governance and Operations) Act, 2023.

During audit of PPL for the FY 2023-24, it was observed that PPL management was not following the provisions of the SOE Act, 2023 meant for governance and operations on the plea that PPL has exemption under Section 50 of the PSWF Act, 2023. But the PSWF Act, 2023 was not implemented yet because assets placed under Schedule I of the Act *ibid* were not transferred to the Fund which was evident from disclosure of GoP shareholding of 67.51% in its Annual Report 2024 and payment of dividend to GoP as per previous practice. Resultantly, PPL took benefit of exemption from implementation of additional requirements of Governance and Operations introduced under SOE Act, 2023.

Audit is of the view that due to weak regulatory oversight, PPL management availed exemption from additional requirement of governance and operations introduced under SOE Act, 2023 despite the non-implementation of PSWF Act, 2023.

The matter was reported to the management in November, 2024. In DAC meeting held on January 10, 2025, management stated that under section 50k of the PSWF Act, 2023, PPL was exempted from the SOE Act 2023. Audit contended that PSWF Act, 2023 was not implemented yet, only section 50 of PSWF Act, 2023 was invoked by PPL to get exemption from the additional

requirements of SOE Act, 2023 meant for governance and operation of State Owned Entities.

The DAC directed the management to take up the matter with Finance Division through Petroleum Division for clarification. No further progress was reported till finalization of the report.

Audit recommends to comply with the provisions of the SOE Act, 2023 till implementation of the PSWF Act, 2023.

[DP No. 3460]

2.3.4.25 *Failure to conduct Performance Evaluation of members of BoD and senior management*

According to Rule 8 of Public Sector Companies (Corporate Governance) Rules 2013, the performance evaluation of members of the Board including the chairman and the chief executive shall be undertaken annually by the Government for which the Government shall enter into performance contract with each member of the Board at the time of his appointment. Further, Rule 10 (3) (v) of the Listed Companies (Code of Corporate Governance) Regulations, 2019 provides that the Board of the company shall ensure a formal and effective mechanism is put in place for an annual evaluation of the Board's own performance, members of the Board and of its committees. Further, 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.

During audit of PPL for the FY 2023-24, it was observed that performance evaluation of PPL's Board members was neither conducted by the Government nor by BoD for the FY 2023-24. Further, BoD did not conduct the requisite performance evaluation of senior management for the FY 2023-24.

Audit is of the view that due to weak regulatory oversight, the performance evaluation of Members of BoD and senior management was not carried out by the Government / BoD.

The matter was reported to the management in November, 2024. Management stated in a DAC meeting held on January 10, 2025 that as per policy, MD evaluated the performance and assigned ratings accordingly. These

ratings, were submitted to Board Human Resource Committee (BHRC) in its meeting held on August 15, 2024. BHRC reviewed and recommended the same to the Board for its approval. Subsequently, the Board accorded its approval through a Circular Resolution on September 27, 2024. Management further stated that the first Phase of the performance evaluation of members of Board had been completed and the second Phase of the evaluation was in process.

The DAC directed the management to pursue the completion of evaluation report within one month. DAC also directed to refer the matter to the Federal Government for evaluation of members of BoD under Rule 8 of Corporate Governance Rules, 2013. DAC further directed the management to provide the copies of performance evaluation reports of top management approved by BoD. No further progress was reported till finalization of the report.

Audit recommends to take up the matter with the Federal Government for performance evaluation of members of BoD under Rule 8 of the Rules *ibid* and complete the process of in-house evaluation besides providing the copies of performance evaluation report of top management.

[DP Nos. 3318 & 3320]

HSEQ and Sustainability Management

2.3.4.26 Lack of way forward to implement commitments of COP-28 and MoU signed among E&P companies and Gas Companies

According to De-Carbonization Charter at COP-28 in UAE on December 2, 2023, it was committed to net-zero operations by 2050 and ending routine flaring by 2030 and near zero upstream methane emissions. Further, a Memorandum of Understanding (MoU) in respect of Green Hydrogen Projects was signed between state-owned oil and gas companies (GHPL, PARCO, PPL, MPCL & OGDCL). The signatories also agreed upon the key actions; investments in the energy system including renewables, low-carbon fuels and negative emissions technologies, increasing transparency, including enhancing measurement, monitoring, reporting and independent verification of Green House Gas (GHG) emissions and performance / progress in reducing emissions and accelerate de-carbonization of operations.

During audit of PPL for the FY 2023-24, it was observed that the management of PPL participated in Conference of the Parties (COP-28) under the United Nations Framework Convention on Climate Change (UNFCCC) in UAE on December 2, 2023. In order to implement decisions taken in COP-28, huge investment was required. Concrete steps were not taken to use flare gas commercially for recycling and annual plan of leak detection and rectification (LDAR) surveys was not chalked out. Further, initiatives for CO₂ storage or installation of CO₂ Capture and Liquefaction Facilities were not taken. PPL was designated as lead organization for the Green Hydrogen Project, with the possibility of engaging consultants / advisors as per agreement among partners. Further, as a first step feasibility study was not initiated yet and proposed joint fund was also not formed.

Audit is of the view that weak management practices led to lack of commitment / way forward to implement commitments of COP-28 signed by PPL.

The matter was reported to the management in October, 2024. In a DAC meeting held on January 10, 2025, management stated that sustainability reporting was introduced to account for GHG emissions. Several projects had enhanced energy and production efficiency while reducing GHG emissions to prevent / reduce CO₂ emissions, including three projects for solarization of wellhead control systems. Further, on September, 6, 2024, an Expression of Interest was signed between PPL and OGDCL, PPL intended to conduct due diligence by setting up data room, feasibility studies and reports. Audit contended that requisite actions such as carrying out feasibility study were not initiated and proposed joint fund was also not formed.

The DAC directed the management to provide the compliance made with the commitments made in COP-28 and also share report on implementation of MoU. No further progress was reported till finalization of the report.

Audit recommends to take effective steps to fulfil the commitments signed in COP-28 and MoU among E&P companies.

[DP Nos. 3457 & 3458]

2.3.4.27 Non-finalization of certification of Environmental Management System and non-removal of non-conformities

According to Clause 30.1 of Model PCA, the Operator shall conduct all exploration and production operations in accordance with Good International Oilfield Practices. Further, as per Para 2.5.3 of Sectoral Guidelines for Upstream Petroleum Sector-Onshore issued by Pakistan Petroleum Exploration and Production Companies Association, ISO 14001. It specifies a framework of control for an Environmental Management System against which an organization can be certified by a third party. Further, according to Clause 9.4.1 of approved QHSE Manual, the OHSAS 18001 and ISO 14001 specifications have been used to develop a comprehensive Occupational Healthy Safety and Environment Management System. Further, according to Clause 9.5.4 of QHSE Manual, the procedure includes identification of nonconformities and actions taken to correct.

During audit of PPL for the FY 2023-24, it was observed that the management did not conduct certification audits (ISO 14001:2015, ISO 45001:2018 and 9001:2015) of Environmental Management System (EMS), Occupational Health Safety Management System and quality assurance of exploration department prior to April, 2024. M/s SGS conducted Stage-I certification audit and issued certificates for Exploration Department and seven gas fields subject to satisfactory surveillance audit. However, the management could not conduct the requisite surveillance audit till October, 2024. This resulted in non-fulfilment of conditions imposed in the ISO certification leading to non-finalization of certification process of Exploration Department and seven fields / Assets. Further, the Consultant pointed out various non-conformities in audit reports of Exploration Department and seven Fields but no corrective action for removal of findings was reported. Moreover, PPL management did not seek for twenty-two exploration blocks / sites.

Audit is of the view that weak HSEQ / EMS management resulted in non-finalization of certifications, non-removal of non-conformities pointed out by the Consultant and non-initiation of certification process for twenty-two exploration blocks / sites.

The matter was reported to the management in November, 2024. In DAC meeting held on January 10, 2025, the management stated that audit reports of M/s SGS exhibited that certification for ISO 14001:2015, ISO 9001:2015, ISO

45001:2018 was successfully granted to PPL for Sui field and continued for Kandhkot field. ISO certification of the Exploration Department included all exploration blocks and no separate certification audits were conducted for all exploration blocks. As far as conducting of surveillance audit was concerned, the surveillance audit was scheduled in FY 2024-25. Moreover, the non-conformities and observations highlighted in the audit reports of M/s SGS were addressed.

Audit contended that certification or HSE internal audit was not conducted for blocks. Further, the requisite surveillance audit was not got conducted yet. Moreover, compliance reports of Gambat South, Hala, and Mazarani fields showed incomplete closures of non-conformities. The NOC / license for sale of condensate and diesel storage at Mazarani and Hala fields was also pending.

The DAC directed the management to provide record for verification and take corrective measures for removal of remaining non-conformities and expedite the surveillance audit. No further progress was reported till finalization of the report.

Audit recommends to get the certification process completed by conducting surveillance audit and taking remedial measures for removal of non-conformities besides initiating process of certification or HSE internal audit for twenty-two exploration blocks.

[DP Nos. 3347, 3450, 3453 & 3454]

Human Resource Management

2.3.4.28 Irregular extension of General Manager, Shared Services

According to Paras 3.5.1 and 3.5.15 of HRM Policy, Human Resource Department (HRD) is responsible for overall management of the recruitment and selection processes. Further, as per Para 9.2 relating to Succession Planning, the exercise is carried out by MD and his direct reports to ensure that as far as possible suitably qualified personnel with appropriate skills and competencies are available to fill the vacancies becoming available due to business reasons. A potential assessment of identified candidates will be carried out to verify their suitability.

During audit of PPL for the FY 2023-24, it was observed that the management granted extension to a retired employee as GM (Shared Services) in

Job Group 13 in November, 2023 against the Company HR Policy / Rules because no provision was existed in the HR Policy or Rules for retention of retired employee on contract basis. As per succession plan (January, 2023), one employee in JG-13 was ready for succession of GM Shared Services within one year whereas three employees in JG-12 were ready for succession of the said post within one year. The management irregularly granted extension and retained the retired GM shared Services on contract instead of implementing the approved succession plan.

Audit is of the view that the weak Succession Planning and HR management resulted in irregular extension of retired employee instead of direct or in-house appointment / promotion through recruitment process.

The matter was reported to the management in November, 2024. Management replied that GM Shared Services was retained on contract after his superannuation with the approval of PPL Board. Prior to retirement of the incumbent, management decided to announce the position of General Manager Shared Services internally to fill the impending vacant position. Accordingly, four internal candidates were interviewed but none of them was found suitable for the position in the given scenario. External hiring would have taken six to eight months whereas Company essentially needed continuity in the aspects being handled by the incumbent.

Audit contended that there was no provision under HR Manual for extension or retention of any employee after retirement, BoD was also bound to work under Rules and Regulations. Para was not discussed in DAC meeting held on January 10, 2025 as management took time for preparation of reply.

Audit recommends to probe into the matter and share report to Audit.

[DP No. 3442]

2.3.4.29 Vacant post of GM Strategy and Business Excellence despite availability of candidates under succession plan

According to Para 3.5.1 of HRM Policy, Human Resource Department (HRD) is responsible for overall management of the recruitment and selection processes. HRD will also provide recruitment advice, services to all departments on need basis and is responsible for the centralized process leading to employment. HRD will initiate the process on receiving a formal request for recruitment against approved vacant position. If clear internal replacement for a certain position is not available, then the position will simultaneously be

advertised internally and externally to give a fair chance to eligible PPL staff to compete with the outsiders.

During audit of PPL for the FY 2023-24, it was observed that succession plan showed that post of GM Strategy and Business Excellence was vacant since January, 2023 despite availability of five candidates under succession plan, four candidates in Job Group-12, out of which two candidates were ready for promotion within one year and one candidate in JG-11. Management did not implement succession plan to fill the vacant post.

Audit is of the view that due to vacant post of GM Strategy and Business Excellence, the functions of corporate planning, business development & continuity and enterprise risk management remained deprived of leadership which may impair the quality of core functions.

The matter was reported to the management in October, 2024. In DAC meeting held on January 10, 2025, management stated that Board note had been initiated with the recommendation of management to appoint one of the internal resources for this position.

The DAC directed the management to pursue the matter for early appointment against the vacant post. No further progress was reported till finalization of the report.

Audit recommends to fill the vacant post of GM Strategy and Business Excellence at the earliest.

[DP No. 3324]

Others

2.3.4.30 *Delay in finalization of close-out proceedings / settlement of PPL Asia's claim and continuity of operations of PPL-Asia – Rs 3,329 million*

According to Rule 5(5) of Public Sector Companies (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 PPL for the FY 2023-24, it was observed that PPL-Asia a subsidiary of PPL had 100% working interest in exploration block-8 in Iraq and executed an Exploration, Development, Production and Service Contract (EDPSC) with the Midland Oil Company (MdOC), Iraq. In August, 2022, the contract was terminated and closeout proceedings for settlement of all outstanding liabilities and receivables was required to commence. PPL-Asia lodged a claim amounting to US\$ 11.890 million equivalent to Rs 3,329 million primarily pertaining to reimbursement of specific costs plus interest thereon which was not finalized despite lapse of more than two years. Further, as per note 6.3.2 of Financial Statement for the FY-2023-24, PPL-Asia sustained accumulated impairment loss on the investment of Rs 9,801 million. PPL-Aisa was not performing any E&P activities since August, 2022.

Audit is of the view that due to weak E&P operations management, PPL-Asia sustained accumulated impairment loss of Rs 9,801.000 million during 2013 to 2023. The Company also failed to complete finalization of close-out proceedings leading to non-settlement of claim amounting to Rs 3,329 million.

The matter was reported to the management in August, 2024. The management in its reply stated that the entire amount of US\$ 6 million has been recovered and closure proceedings had been finalized in January 6, 2025.

The DAC settled the para subject to sharing of reconciliation report and verification of recovery of settled amount as final settlement. No further progress was reported till finalization of the report.

Audit recommends to provide reconciliation of amount claimed and settled by PPL-Asia and take adequate decision regarding continuation of PPL-Asia's operations keeping in view huge impairment loss and no E&P activities were performed by the subsidiary company during last two years.

[DP No. 3505]

2.3.4.31 Delay in release of SBLC furnished for Yemen Block and impairment loss of PPL Europe – Rs 13,549.750 million

According to Rule 5(5) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of

probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders. Further, Petroleum Sharing Agreements requires submission of performance bank guarantee equal to the total minimum expenditures for each category of work set forth in the agreement for exploration period. Bank Guarantee shall expire after the end of exploration period or in case of relinquishment duly approved by the Authority as defined in the Agreement and this Letter of Guarantee shall be returned to the contractor immediately.

During audit of PPL for the FY 2023-24, it was observed that PPL established a 100 % owned subsidiary namely PPL Europe in 2013 which had registered office in London, United Kingdom. PPLE was carrying out exploration and production business in Pakistan and had a working interest in two producing fields and three exploration blocks in Pakistan, as well as one exploration block in Yemen. The Holding Company (PPL) was also doing the E&P business in Pakistan, hence, the decision of creating a subsidiary for doing the same business by incurring operating expenses in foreign currency was lacking prudence. Further, PPL placed a Standby Letter of Credit (the SBLC) amounting to US\$ 7.500 million as performance guarantee for Yemen Block 29 under the PSA in 2009. Subsequently, the PPL assigned its participating interest in the Block-29 to its wholly-owned subsidiary PPLE with effect from May 14, 2014. The Operator served a notice of termination of PSA on June 21, 2016 to the Ministry of Yemen due to force majeure in April, 2015. But the management was not got SBLC released from the respective bank. This resulted in blockage of US\$ 7.500 million equivalent to Rs 1,683.750 million despite a lapse of more than nine years. In addition to this, the subsidiary company sustained financial loss of Rs 1,029.583 million during last two FYs and there was accumulated impairment loss of Rs 11,866.000 million as reflected in annual financial statement for the FY 2024.

Audit is of the view that due to slack pursuance and weak financial management, huge funds amounting to Rs 1,683.750 million of PPL Europe were blocked in SBLC and the subsidiary causing huge impairment loss of Rs 11,866.000 million and a financial loss of Rs 1,029.583 million.

The matter was reported to the management in November, 2024, but no reply was received till finalization of the report.

Audit recommends to justify the impairment and financial losses of PPL-Europe and expedite the release of SBLC besides improving the operational performance of the subsidiary.

[Para Nos. 19 and 20 of AIR (CFO)]

2.4 Pakistan State Oil Company Limited

2.4.1(A) Introduction

Pakistan State Oil (PSO) was incorporated as a result of merger of Premier Oil Company and State oil Company limited on December 30, 1976. The Government of Pakistan maintains a direct shareholding of 22.47% in PSO with a total of 51% including direct and indirect shares. The Company is managed and controlled by Managing Director and the Board of Management, appointed by the Federal Government under Sections 6 and 7 of the Marketing of Petroleum Products (Federal Control) Act, 1974.

PSO is the largest Oil Marketing Company of Pakistan dealing with procurement, storage, sales and marketing of petroleum products. PSO has 51.6% market share and a widespread network comprising of 3,580 retail outlets, 9 installations, 19 depots, refuelling facilities at 14 airports, two lubricant manufacturing facilities and 16 LPG storage & bottling facilities⁵⁰. 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, the company is entrusted with the responsibility of importing LNG through long term agreements with Qatar Gas (QG) and Qatar Petroleum (QP) since 2015.

PSO has strategically diversified its investments in a wide range of areas, including infrastructure development, renewable energy projects, and technological advancements. These investments were made in seven (7) incorporated companies and in two (2) un-incorporated joint arrangements. Investments in four companies represented more than 50% of equity, making them the subsidiaries of the PSO. These are:

- i. Pakistan Refinery Limited (PRL) which was incorporated in May 1960 and is located on the coastal belt of Karachi. PSO holds 63.6% equity stake in PRL.
- ii. Cerisma Private Ltd. is a fully owned subsidiary of the PSO. Its primary focus lies in the establishment, management, ownership, administration and operation of an Electronic Money Institution (EMI).

⁵⁰ Annual Report 2024.

- iii. PSO Renewable Energy (Private) Limited was established as a wholly owned subsidiary, with the focus of engaging in the renewable energy sector.
- iv. PSO Venture Capital (Private) Limited was incorporated for carrying out the business of a private fund management company and to provide private equity and venture capital fund management services.

(B) Financial performance

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

(Rs in million)				
Particulars	2023-24	2022-23	2021-22	2020-21
Net Sales	3,742,081	3,539,155	2,541,730	1,223,678
Gross Profit	111,893	84,406	178,127	57,255
Other Revenues	28,290	16,796	25,348	19,415
Marketing & Administrative Exp.	26,915	22,041	17,765	15,737
Other Exp.	10,516	4,515	14,772	4,053
Operating Profit	102,491	74,208	165,832	55,981
Finance Cost	55,967	43,410	5,962	11,554
Share of profit from associates	1,645	869	690	575
Profit before Tax	48,168	29,929	160,560	45,003
Profit for the Year	19,650	9,816	95,723	29,557

(Source: Company's Annual Audited Accounts)

2.4.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 669,302.219 million were raised in this report during the current audit of PSO. This amount also includes recoverable of Rs 472,033.030 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	472,361.567
B	Governance Related Issues	182,620.331
C	Procurement and Project Related Issues	11,238.196

D	Legal and Other Issues	3,082.125
	Total	669,302.219

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	18	11	7	61
2011-12	9	4	5	44
2012-13	5	1	4	20
2013-14	10	9	1	90
2015-16	28	23	5	82
2016-17	26	10	16	38
2017-18	14	13	1	93
2018-19	9	8	1	89
2019-20	13	8	5	62
2021-22	5	0	5	0
Total	217	141	76	65

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 467,707.513 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 the case Credit Cards Policy of the PSO, “due date of payment of dues is 15th of each month for sole proprietors and 25th for Private, Public Ltd. Companies and Government accounts”. Further, According to Article 4 of Dealership License Agreement, for conducting PSO’s primary business, an indent shall be forwarded to PSO at the relevant supply point at least 24 hours in advance of the requested date of delivery of such PSO products as are identified in the indent together with payment of the indent amount and relevant license fees in the form of pay order, demand draft or other instrument approved by PSO.

During audit of PSO for the FY 2023-24, it was observed that PSO trade debts due from bulk consumers, card holders and retailers stood at Rs 439,430.122 million as on June 30, 2024. Out of this, an amount of Rs 25,805.000 million was receivable from retailers, from whom PSO had to receive payment in advance as per Agreement. Pendency of such huge amount as receivable from dealers was un-justified. Similarly, an amount of Rs 229.003 million was receivable from card holders despite the fact that as per policy billing amount should be received up to 25th day after the receipt of bill. It was also observed that matter of settlement with Pakistan National Shipping Corporation (PNSC) was appearing in Annual Report since long at Rs 2,068.000 million, which indicated that no action was taken on such an important issue. PSO also failed to recover the decreed amount of Rs 175.388 million in the case of Southern Electric Power Company Ltd. since 2012. Due to non-adherence to the terms of agreement with consumers, PSO had to rely on borrowing which resulted in enhancement of financial cost by Rs 12,557.000 million from the FY 2022-23 (increased from Rs 43,410.000 million to Rs 55,967.000 million). This resulted in non-recovery from bulk customers, card holders, retailers, PNSC and Southern Electric Power Company Ltd. of Rs 467,707.513 million.

Audit is of the view that due to slackness of the management recovery of outstanding amounts of Rs 467,707.513 million could not be made.

The matter was reported to the management in August to October, 2024. In DAC meeting held on January 08 & 09, 2025, the management explained recovery of Rs 354,539 million, had been affected from bulk customers, representing 81% of pointed out amount. With respect to recoverable amount from dealers and card holders, it was apprised that it was ongoing process and major amount had been recovered. With respect to settlement with PNSC, it was informed that matter was pending due to reconciliation issues.

The DAC in its meetings dated January 17, 2024 and January 08 & 09, 2025 directed the management to get the recovery verified from Audit according to the credit period and recovery of financial charges, if any in case of delayed payment. The DAC further directed to pursue recovery of remaining amount and pursue the matter with PNSC. No further progress was reported till finalization of the report.

Audit recommends to make strenuous efforts for early recovery of outstanding amount, besides looking into the causes of non-recovery from retailers and card holders.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2021-22, 2022-23 and 2023-24 vide para numbers 2.4.4.1, 2.4.4.1 & 2.4.4.1 having financial impact of Rs 13,375.77 million, Rs 33,871.18 million and 138,807.988 million respectively. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 3258, 3262, 3278, 3266 & 2434]

2.4.4.2 Non-deposit of unclaimed dividend in Federal Government Account - Rs 1,373.428 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 followed by final notice to be published in two daily newspapers. If no claim is made before the company by the shareholders, the company shall deposit the unclaimed or unpaid amount to the credit of Federal Government.

During audit of PSO for the FY 2023-24, it was observed that the company reflected unclaimed dividend of Rs 1,620.814 million in its financial statements as on June 30, 20024. However, the company did not deposit the unclaimed dividend of Rs 1,373.428 million as stood on June 30, 2021 in the Federal Government Account in violation of above provision of the Companies Act, 2017.

Audit is of the view that weak pursuance with competent fora led to non-deposit of unclaimed dividend in Federal Government Account.

The matter was reported to the management in August to October, 2024. In DAC meeting held on January 08 & 09, 2025, the management stated that non deposits of the unclaimed dividend were due to non-existence of the requisite profit-bearing account with SBP/NBP. The PAC in its meeting dated March 01, 2023 directed SECP to open the account, but it had not yet been established. On the notification of designated account by the concerned authority PSO would deposit the unclaimed dividend.

The DAC directed the management to pursue the matter. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter with competent fora as per law and transfer the unclaimed amount to the Federal Government. Audit also recommends that Petroleum Division should take up the matter at the appropriate forum to resolve a long outstanding issue.

Note: The issue was reported earlier in the Audit Report for Audit Years 2023-24 vide para number 2.4.4.2 having financial impact of Rs 1,561.242 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 3283]

2.4.4.3 Non-recovery of amount on account of IFEM settlement - Rs 1,221.208 million

According to Articles 5 & 6 of Inter Company Freight Settlement Agreement, each OMC shall pay the outstanding amount which is finally determined to be payable as intimated in writing by the Third-Party Clearing House within seven days of receipt of the relevant statement and in the case of delay in payments, the defaulting OMC(s) shall be liable to pay financing

charges at previous 6 month's KIBOR rate plus one percent for the actual number of days that the payment is delayed.

During audit of PSO for the FY 2023-24, it was observed that an amount of Rs 1,221.208 million was receivable on account of IFEM settlement from other OMCs.

Audit is of the view that poor enforcement of Inter Company Freight Settlement Agreement had resulted in non-recovery of IFEM of Rs 1,221.208 million.

The matter was reported to the management in August, 2024. In DAC meeting held on January 08 & 09, 2025, the management explained that amount appearing in accounts under the IFEM head was provisional and this amount attained finality on the settlement by the third-party clearing house. PSO was to receive Rs 179.738 million on June 30, 2024, which was duly received from the concerned companies. Audit contended that as per Article 3 of the Agreement the third-party clearing house was required to settle the accounts among the companies within one month of the close of the month, but on June 30, 2024 the settlement for the months of March to June was still pending.

The DAC reduced the para to the extent of recovered and verified amount of Rs 179.738 million and directed the management to pursue the recovery of remaining amount. No further progress was reported till finalization of the report.

Audit recommends to expedite the matters with OGRA for early recovery of amount along with financial charges.

[DP No. 3274]

2.4.4.4 Unjustified expenditure on interest payment and exchange loss – Rs 1,144.288 million

According to Section 6 (a) of State-owned Enterprises Act, 2023 the business of the state-owned enterprise is carried on with integrity, objectivity, due care and the professional skills appropriate to the nature and scale of its activities.

During audit of PSO's accounts for the FY 2023-24, it was observed, that company had to incur expenditure of Rs 657.261 million on account of interest on delayed payment to refineries and Rs 487.027 million on account of exchange

losses. Proper financial management could have saved the company from these expenses through timely payments. This resulted in unjustified payment on these accounts amounting to Rs 1,144.288 million.

Audit is of view that occurrence of these expenses could have been avoided, if company had planned its financial resources efficiently and made payments on time.

The matter was reported to the management in August and September, 2024. In DAC meeting held on January 08 & 09, 2025, the management stated that in the FY 2023-24, Rs 657.261 million was recorded as interest payable to refineries but remained unpaid. Delays in payments were due to liquidity problems as huge amounts had accumulated as receivables from SNGPL, which exceeded Rs 500 Billion (including LPS) during FY 2024, whereas receivables from CPPA/power sector were above Rs 180 Billion (including LPS). With respect to occurrence of exchange losses, the management explained that settlement of demurrages was a lengthy process and it took more than a year for settlement.

The DAC directed the management to get the stated stance verified from Audit. DAC also observed that the issue of circular debt needs to be dealt with at appropriate level. No further progress was reported till finalization of the report.

Audit recommends to strengthen financial controls for effective management of its funds in order to avoid unproductive expenditures and resolve the issue of circular debt at appropriate level.

[DP No. 3275]

2.4.4.5 Non-transfer of shares held by PSO Employees Trust to Government of Pakistan and irregular retention of funds in PSO BESOS Fund - Rs 915.130 million

According to orders of Supreme Court of Pakistan in case numbers C.A.421/2018, 422/2018 and 423/2018 dated October 22, 2020, Benazir Employees Stock Option Scheme (BESOS) was executed in breach of Article 154 of the Constitution of the Islamic Republic of Pakistan. Further, according to the Privatization Commission of Pakistan (PCP) and Finance Division instructions vide letter dated December 30, 2020 and 09 May 2022 respectively,

fund maintained by PCP had been closed since December 2020, therefore, the amounts retained on account of Employees Empowerment Fund be directly deposited in the Federal Consolidated Fund.

During audit of PSO for the FY 2023-24, it was observed PSO Benazir Employees Stock Option Scheme Fund had balance of Rs 915.130 million and 119,767,702 shares were withheld with Trust. After the decision of SCP and Finance Division's instructions mentioned above, PSO was to disband the Trust and deposit the funds of Rs 915.130 million under the BESOS in the Federal Consolidated Fund and surrender shares held to Government. However, the order of the Supreme Court of Pakistan and instructions of Finance Division were not implemented despite lapse of more than 4 years. This resulted in undue retention of funds of BESOS amounting to Rs 915.130 million and holding of 119,767,792 shares in the name of Trust.

Audit is of the view that due to weak regulatory compliance, management of PSO retained BESOS funds amounting to Rs 915.130 million in violation of orders of the Supreme Court of Pakistan, Privatization Commission of Pakistan and Finance Division

The matter was reported to the management in September, 2024. In DAC meeting held on January 08 & 09, 2025, the management apprised that PSO BESOS Trust was established under the 2009 BESOS scheme. In order to comply the Supreme Court's order, the trust was required to be wound up. The current retention of funds and shares was due to the absence of a fully constituted Board of Trustees. PSO was actively coordinating with the Ministry to expedite the process of appointment of trustees to ensure timely compliance with the Supreme Court's decision.

The DAC directed the management to transfer the amount within two months. No further progress was reported till finalization of the report.

Audit recommends to initiate action for the transferring of funds to Federal Consolidated funds and shares in the name of Federal Government.

[DP No. 3284]

Governance Related Issues

2.4.4.6 Non-execution of tri-partite agreement and un-recognized revenue on account of delayed payment surcharge - Rs 176,125 million

According to Section 8 of Marketing of Petroleum Products (Federal Control) Act, 1974, the functions of the Board of Management shall be to ensure that the marketing companies, in respect of which it is to exercise and perform its powers and functions, are managed efficiently and in accordance with sound business principles. The Board's Finance and Risk Management committee in its 16th meeting held on December 13, 2023 described that key focus areas for the year 2024 included the target to execute tri-partite agreement with SNGPL and SSGC. Clause 9.4.1 of the initial tri-partite agreement states that all payments will be made by or on behalf of the Gas Companies to PSO within three days of LNG invoice. Delayed payment charges at the rate of one-month KIBOR plus 2% from the due date will be included, if payment is not made on due date to PSO under Clause 10.1 of the initial tri-partite agreement. Further, the note 31.1.1 of notes to financial statements, 2023 revealed that in case of circular debt issue, the company recognized delayed payment charges as income on actual receipts of these charges.

During audit of PSO for the FY 2023-24, it was observed that company in case of circular debt issue recognized delayed payment surcharge as income on receipt basis. The company calculated delayed payment surcharge of Rs 78.577 Billion for the year 2023-24 on account of LNG, as accumulated amount of Rs 176.125 Billion. Audit held that delayed payment surcharge could not be substantiated by the company as no legal cover was available on this issue due to absence of written agreement. On the other hand, the company bore financial cost of Rs 39.774 Billion in order to finance the funds required for LNG business for the FY 2023-24. This situation revealed that due to non-receipts of invoiced amount from SNGPL in time, as well as to continue the business of the LNG, company had to bear a substantial financial cost, but the company could not claim surcharge from SNGPL on delayed payment primarily due to non-signing of agreement. This resulted in non-recognition of Rs 176.125 Billion delayed payment surcharge which included current year amount of Rs 78.577 Billion.

Audit is of the view that due to weak oversight by the BOM, the company could not pursue the policy makers about financial cost of carrying out LNG business which has resulted in non-recognition of Rs 176.125 Billion

delayed payment surcharge (current year amount Rs 78.577 Billion) due to absence of written agreement.

The matter was reported to the management in October, 2024. In DAC meeting held on January 08 & 09, 2025, the management apprised that the Tripartite Agreement-1 (TA-1) between PSO, SNGPL, and SSGC was pending for eight years despite continuous follow-ups and Petroleum Division intervention. PSO had taken all possible steps to resolve outstanding issues, including LPS.

The DAC directed the management to pursue the matter. No further progress was reported till finalization of the report

Audit recommends to expedite the efforts for finalization of agreement and devising a policy at government level to protect the PSO against the losses in LNG business and initiating action for recovery of delayed payment surcharge from SNGPL.

[DP No. 3302]

2.4.4.7 Irregular expenditure of Board of Management - Rs 32.670 million

According to Section 9 (2) of the Marketing of Petroleum Products (Federal Control) Act, 1974 the Managing Director in respect of every company shall make to the Board of Management each year such payment to enable it to defray its expenses as the Board may, with the prior approval of the Federal Government in writing, demand of him. Further Section 7 (4) of the Act ibid provides that the Chairman and members of Board of Management shall hold office during the pleasure of the Federal Government on such terms and conditions as it may determine.

During audit of PSO for the FY 2023-24, it was observed that an amount of Rs 32.670 million was paid by the PSO to defray the expenses of the Board of Management (BOM) without the approval of Federal Government, on the plea that Petroleum Division in 2013 apprised the PSO that BOM was empowered / competent to approve its Budget. Audit contended that requirement of approval of budget of BOM by the Federal Government was mentioned in the Act and Principal Accounting Officer could not override this provision. Further, the Act also provided the terms and conditions for the appointment of BOM which would be determined by the Federal Government.

Audit is of the view that BOM derives its power from the Marketing of Petroleum Products (Federal Control) Act, 1974 and this Act requires that expenditures incurred to defray the expenses of the Board should be approved by the Federal Government. Incurrence of the expenditure without the approval resulted in irregular expenditure of Rs 32.670 million.

The matter was reported to the management in October, 2024. In DAC meeting held on January 08 & 09, 2025, the management explained that in terms of Rules of Business, 1973, the administrative function of PSO rests with the Petroleum Division. Accordingly, the Petroleum Division has empowered PSO's Board of Management (BoM) to approve its budget. Furthermore, the expenses incurred by the BoM were within the budget duly approved by the BoM.

The DAC directed the management to regularize the previous expenses from Federal Government. DAC further directed that the terms and conditions of BoM be obtained from Federal Government through Petroleum Division. No further progress was reported till finalization of the report

. Audit recommends for complete audit of the BOM expenditures in line with the authority provided by the Federal Government, besides regularization of the expenditures incurred by the Board from Federal Government.

[DP No. 3265]

2.4.4.8 Un-authorized investment in subsidiaries - Rs 6,462.661 million

According to the Marketing of Petroleum Products (Federal Control) Act, 1974, the purpose of the Act is to provide for the management and development of marketing facilities in petroleum products. Further Section 8 of the Act *ibid*, describes the function of the Board, which inter-alia includes to ensure that the marketing companies in respect of which it is to exercise and perform its powers and functions under this Act are managed efficiently and in accordance with sound business principles.

During audit of PSO for the FY 2023-24, it was observed that management invested of Rs 4,890.680 million in the acquisition of 63 percent shares of Pakistan Refinery Ltd and Rs 2571.661 million on the incorporation of three 100 percent owned subsidiaries. Audit contended that decision of investment in refinery and investment for incorporation of subsidiaries (other than the OMC) was beyond the scope of the BOM. Further, as BOM was appointed under the

Act of 1974 for managing the affairs of the OMC only and any vertical expansion or any investment for incorporation of any company needs the concurrence and approval of appointing authority i.e. Federal Government. Furthermore, detailed record regarding minutes of BOM approving the investment, and analysis done prior to doing the investment was not produced to Audit despite reminders. Lack of approval from Federal Government resulted in un-authorized investment of Rs 6,462.661 million.

Audit is of the view that mandate of BOM and MD was limited within the scope of governing Act i.e. the marketing of petroleum products (Federal Control) Act, 1974 and any activity beyond the scope of the governing Act is un-authorized.

The matter was reported to the management in October, 2024. In DAC meeting held on January 08 & 09, 2025, the management explained that BoM, appointed by the Federal Government, had statutory authority to manage PSO's affairs under the Act. The Companies Act, 2017 explicitly authorized the Board to acquire stakes in other companies. Accordingly, the BoM duly approved the acquisition of PRL shares in its 271st meeting.

The DAC directed the management to seek advice from the Petroleum Division on the issue. No further progress was reported till finalization of the report

Audit recommends to take up the matter with Federal Government for deciding the fate of investment.

[DP Nos. 3276 & 3277]

2.4.4.9 Non-transfer of physical shares into book entry

According to Section 72 of Companies Act, 2017, after the commencement of this Act from a date notified by the Commission, a company having share capital should have shares in book-entry form only and every existing company shall be required to replace its physical shares with book-entry form in a manner as may be specified and from the date notified by the Commission, within a period not exceeding four years from the commencement of this Act.

During audit of PSO for the FY 2023-24, it was observed that the company failed to convert all of their shares into the book entry form. As per

record, 45% of shareholdings of the PSO were still in form of physical shares in violation of Companies Act, 2017.

Audit is of the view that non-conversion of physical shares into book form despite lapse of 7 years after the promulgation of Companies Act, 2017 resulted in non-compliance of Companies Act, 2017.

The matter was reported to the management in September, 2024. In DAC meeting held on January 08 & 09, 2025, the management stated that PSO had been actively encouraging shareholders to convert physical shares into book-entry form through notices, emails, and SMS. Despite continuous follow-up, the company could only assist in the process and had made significant progress in reducing physical shareholding.

The DAC directed the management to pursue the matter. No further progress was reported till finalization of the report.

Audit recommends to comply the relative legislation in order to ensure good governance of the PSE.

[DP No. 3293]

Procurement and Project Related Issues

2.4.4.10 Unjustified expenditure on account of demurrages - Rs 853.875 million

According to Article 18 para 8, of General Terms and Conditions for Cost & Freight (C&F) or Cost, Insurance and Freight (CIF) sales of petroleum products agreement signed between PSO and Kuwait Petroleum Limited (KPC) if the Crude/Product is not discharged within the time allowed in accordance with the Article 18 or as otherwise specified in the Special Provisions, the buyer shall pay demurrages to the seller in respect of the excess time at the appropriate rate per day. Further, the Clause 2.8 of bid documents in case of spot procurement provides that the buyer shall pay demurrages as defined and detailed herein for each running hour and on prorated basis for a part thereof for the period.

During audit of PSO for the FY 2023-24, it was observed that an amount of US\$ 3.105 million was accrued on account of demurrages due to the reasons that company could not arrange to discharge the vessels in approved time. Audit observed that during the period under Audit, demurrages accrued on 58 vessels.

The management stated that the main reasons included port congestion and operational delay such as due to testing or low rate of discharge at Keamari Port. Audit observed that due to poor liaison with port authorities and operational inefficiencies the company could not discharge its vessels in time. This resulted in accrual of Rs 853.875 million on account of demurrages.

Audit is of the view that due to poor planning and dilapidated infrastructure at port, the company had to incur an expenditure of US\$ 3.105 million (equivalent to Rs 853.875 million) on account of demurrages.

The matter was reported to the management in September, 2024. In DAC meeting held on January 08 & 09, 2025, the management stated that PSO proactively managed vessel inflow to minimize demurrage, achieving significant reductions in recent years. FY 2024 saw the lowest demurrages in a decade despite high industry rates, with PSO's delays well below industry averages. 88% of demurrages were attributed to port congestion and other factors beyond PSO's control. PSO had consistently raised these concerns with relevant authorities for resolution.

The DAC observed that although the PSO had reduced its demurrages substantially yet it needed to further enhance its coordination to reduce the same. No further progress was reported till finalization of the report

Audit recommends to improve operational efficiencies besides taking up matter with Port Authorities for improvement of port infrastructure for reduction in demurrages.

[DP No. 3273]

2.4.4.11 Irregular procurement of petroleum products of Rs 8,837.497 million and un-authorized payment of Deemed Duty - Rs 809.422 million

According to Rule 3 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing Rules, 2016, no person shall construct or operate refinery without obtaining a license from the Authority. Further Rule 6 of the said Rules made it compulsory for existing refinery or under construction refinery before the promulgation of these Rules to obtain license from OGRA. Furthermore, the Government of Pakistan, allowed three refineries to compete in the market through tariff protection formula, whereby these could retain import duty @ 10%

applicable on import of HSD. and 5% import duty ad valorem plus 1% surcharge applicable on import of kerosene oil, light diesel oil and JP-4. However, the deemed duty on SKO, LDO and JP4/JP8 has been removed in the budgets 2007-08 and 2008-09 and limit of duty on HSD was reduced from 10 % to 7.5%. Further, Rule 42-c of the Public Procurement Rules, 2004 permits the procurement agency direct contracting with vendors.

During audit of PSO for the FY 2023-24, it was observed that Company procured high speed diesel from ENAR, (not holding the license of refinery from OGRA) for Rs 8,837 million. Pricing of procurement from non-licensee includes the Deemed Duty of Rs 809.422 million, which seller was not authorized to receive and retain as per government policies. This resulted in irregular procurement of petroleum products and un-authorized payment of Deemed Duty of Rs 809.422 million

Audit is of the view that PSO in procurement of refined products from non-licensee, paid in the deemed duty charged in the pricing, which the seller was not authorized to receive. This procurement was against the norms of the industry and against the regulations. This resulted in unauthorized procurement of HSD for Rs 8,837 million and irregular payment of deemed duty of Rs 809.422 million.

The matter was reported to the management in August & September, 2024. In DAC meeting held on January 08 & 09, 2025, the management explained that PSO had been uplifting by-products from the ENAR facility (now EPRF) to support its full capacity operation for defence requirements under a Sale Purchase agreement. The issue of EPRF's registration with OGRA would be addressed with the relevant officials at EPRF.

The DAC directed the management to refer the issue of purchase from unregistered refinery and pricing to OGRA. No further progress was reported till finalization of the report

Audit recommends to take up the matter with the regulator for rectification of the issue of un-authorized procurement and payment of deemed duty.

[DP No. 3303]

2.4.4.12 Irregular purchase of petroleum products from PARCO

According to Section 6 of State-Owned Enterprises (Governance and Operations) Act, 2023 every state-owned enterprise shall undertake its operations in accordance with the criteria for sound and prudent management; namely that business of the state-owned enterprise is carried on with integrity, objectivity, due care and the professional skills appropriate to the nature and scale of its activities.

During audit of PSO for the FY 2023-24, it was observed that an agreement was signed between PSO and PARCO on July 29, 2009 for a period of ten years commencing from August 01, 2011. On expiry of agreement in July 2021, PSO neither signed a new agreement nor renewed the previous one. However, the supply of petroleum products to PSO from PARCO informally i.e. without existence of any formal agreement continues. Procurement of POL products in absence of valid terms and conditions resulted in risk-prone and irregular purchase of petroleum products of Rs 630,214.000 million.

The matter was reported to the management in August, 2024. In DAC meeting held on January 08 & 09, 2025, the management stated that agreement was finalized with PARCO and under the approval of BOM.

The DAC directed the management to pursue the finalization of agreement with PARCO. No further progress was reported till finalization of the report

Audit recommends to pursue the finalization of the agreement with PARCO.

[DP No. 3306]

2.4.4.13 Mis-procurement due to violation of Public Procurement Rules - Rs 452.895 million

According to Rule 38 of Public Procurement Rules, 2004, the bidder with the most advantageous bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity. Further, Rule 20 of the said rules provides that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works, however, exception to this rule is also

provided in Rule 42 of the said rules on existence of prescribed conditions, such as Rule 42 c (ii) which provides that procuring agency shall engage direct contracting only if a single manufacturer or supplier exists for the required procurement.

During audit of PSO for FY 2023-24, it was observed that company did mis-procurement in two cases. In one case mis-procurement occurred due to splitting-up the award, amongst the first two most advantageous bidders in a 60:40 ratio for Rs 354.069 million. The justifications presented before the Board procurement committee was that to avoid dependency on a single source, it was decided to split the award amongst the first two most advantageous bidders. In 2nd case the company awarded four service contracts under direct contracting for amount of Rs 98.826 million despite the fact that required services did not fall under the ambit of proprietary items. Out of four cases, in one case company contracted M/s Khurram Aurangzaib & Co. for the services on January 19, 2024 but contract was effective from November, 2022 to December, 2024. This showed that PSO was acquiring services without having any formal agreement and later on company was awarded the contract retrospectively.

Audit is of the view that in all above cases, the procurement was made against the rules and therefore, termed as mis-procurement amounting to Rs 452.895 million.

The matter was reported to the management in October, 2024. In DAC meeting held on January 08 & 09, 2025, the management apprised that PSO awarded the contract for 25,000 LPG cylinders by splitting the order between the two lowest bidders in a 60:40 ratio to mitigate supply chain risks, in compliance with PPRA regulations. The cost difference between this approach and awarding the entire contract to the lowest bidder was only 0.07%, ensuring minimal impact on price while maintaining operational continuity. With respect to direct contracting the company explained that each procurement was justified under PPRA Rule 42(c)(ii) due to the exclusivity of services or facilities, and relevant approvals were obtained from the management Procurement Committee.

The DAC directed the to take up the matter with PPRA for seeking opinion on the matter of splitting of contract. In view of explanation given by the management three cases of direct contracting were settled by the DAC. In case of clearing agent, DAC directed the management to provide exclusive

clarification from the concerned Collector of Customs. The DAC also further directed the management to consider the possibility of advertisement before selecting the suppliers.

Audit recommends to seek approval / clarifications from the concerned authorities i.e. from PPRA and Collector of Customs.

[DP Nos. 3297 & 3299]

2.4.4.14 Wastage of expenditure on project due to poor planning - Rs 168.435 million

According to Section 6 of State-Owned Enterprises (Governance and Operations) Act, 2023 every state-owned enterprise shall undertake its operations in accordance with the criteria for sound and prudent management; namely- the business of the state-owned enterprise is carried on with integrity, objectivity, due care and the professional skills appropriate to the nature and scale of its activities.

During audit of PSO for the FY 2023-24, it was observed from the minutes of Management Procurement Meetings No. 231 dated October 05, 2023 that briefing was given regarding progress on Service Order No. 4110028406, which was awarded to Al-Prince Engineers on May 18, 2020 for up-gradation of firefighting equipment at Keamari Terminal B for Rs 211.597 million. The project was to be completed on June 05, 2021. When the vendor started the work, he faced hurdles from the Karachi Port Trust on the ground that PSO had not obtained NOC for the said activities. Later PSO applied for NOC to Trust, which was given on December 20, 2022 i.e. 560 days after expiry of contractual limit. After that the contractor refused to complete the project on the rates quoted in 2020. On the closure of the project, the PSO had paid Rs 168.435 million to the contractor on account of materials purchased and for services rendered. Despite spending of huge amount of Rs 168.435 million, the project was halted and eventually closed due to non-fulfilment of SOPs by the Port Authorities.

Audit is of the view that poor project management and planning resulted in non-completion of project and resulted in wastage of Rs 168.435 million due to closure of the project.

The matter was reported to the management in September, 2024. In DAC meeting held on January 08 & 09, 2025, the management stated that due to

introduction of new NOC and SOP requirements by KPT in March, 2021, after the award of the contract, the contractor refused to complete the project on the same rates as NOC from KPT was received on December 20, 2022. The PSO re-tendered and completed the project.

The DAC directed the management to get it verified that the delay in the project was due to the additional requirements of the port authorities. No further progress was reported till finalization of the report

Audit recommends to improve the liaison with KPT for timely adherence to the requirements of port authorities in such cases besides verifying its stance that delay was due to introduction of additional SOPs from Port Authorities.

[DP No. 3307]

2.4.4.15 Non-recovery of Liquidated Damages - Rs 116.072 million

According to Penalty Clause of service orders executed between PSO and contractors, in the event of contractor's failure to deliver the services/goods within the time mentioned in purchase order/service order, PSO shall be entitled to deduct from the bills / outstanding payments or any other work done for PSO or from any amount due to him by PSO, a sum of Rs 0.1% of Purchase Order / Service Order value per day as liquidated damages for the period which the said services/material remains incomplete or fails to pass the quality tests subject to a maximum 10% of the work order to be recovered from the contract on his default.

During audit of PSO for the FY 2023-24, it was observed that three construction projects were completed by the contractor beyond in the time specified in the contracts, but no record was provided regarding settlement of accounts and deductions of liquidated damages from the contractors as per contracts.

Audit is of the view that despite the fact that significant time had already lapsed after the completion of project, the details of settlement of accounts and deductions of the liquidated damages should have been readily available with the company but non-availability of record indicates that matter had not yet been finalized. This resulted in non-recovery of Liquidated damages of Rs 116.072 million.

The matter was reported to the management in October, 2024. In DAC meeting held on January 08 & 09, 2025, the management explained that the

decision for extension of completion time or imposition of liquidated damages was in negotiation with the contractors.

The DAC directed the management to apprise the audit about the decision of extension or otherwise. No further progress was reported till finalization of the report

Audit recommends to expedite the finalization of settlement with the contracts and initiate recovery of liquidated damages from the contractors in case contractors are at fault.

[DP No. 3300]

2.4.4.16 Non-completion of crucial projects despite lapse of considerable time

According to Section 6(a) of State-owned Enterprises Act, 2023 provides that the business of the state-owned enterprise is carried on with integrity, objectivity, due care and the professional skills appropriate to the nature and scale of its activities. Further, from the note for Approval (NFA) No. 42562 dated January 13, 2021, it was revealed that PSO levied 1 paisa per litter on all its retail fuel sales from end of FY 2009 for expense recovery of Central Information System (CIS) project at its retail outlets.

During audit of PSO for the FY 2023-24 it was observed that the management for automation of its retail outlets awarded the contract on September 27, 2023 for Rs 97.818 million to M/s Alsons Consolidated International for installation, testing and commissioning of 850 Dispenser Unit Control (DUC)s for financial year 2024 but the same could not be completed as only 154 devices / modems could be installed. It was also observed that PSO received grant of Rs 100 million in financial year 2022 from Government of Gilgit Baltistan for establishment of bulk oil depot at Skardu but despite lapse of considerable time, the company had not initiated project for the establishment of storage oil depot at Skardu.

Audit is of the view that due to weak project management the PSO could not complete the automation of its retail outlets as only 977 retail outlets, DUCs were installed as per BOM meeting minutes dated February 02, 2024. Weak project management also led to the non-initiation of the crucial construction of storage depot at Skardu.

The matter was reported to the management in October, 2024. In DAC meeting held on January 08 & 09, 2025, the management stated that for the FY 2023-24 installation of 850 dispensing units was planned, but only 200 dispensing units were completed in the FY. Moreover, retail automation is an ongoing project and was being constantly reviewed by the management. The installation of the remaining units was expected to be completed by March 31, 2025. With respect to construction of storage depot at Skardu, it was informed that project was pending due to non-availability of suitable land.

The DAC directed the management to expedite the completion of remaining dispensing controlling units. The DAC further directed to pursue the allocation of land with Government of Gilgit Baltistan. No further progress was reported till finalization of the report.

Audit recommends to expedite the process automation of its retail outlets at the earliest as only 977 retail outlets were automated out of 3580, besides effective pursuance with Government of Gilgit Baltistan for allotment of land for storage depot.

[DP Nos. 3280 & 3282]

Legal and Other Issues

2.4.4.17 Over charging of sales tax from SNGPL due to inclusion of Sindh Infrastructure Development Cess - Rs 2,137 million

According to Section 2(46)(a) of Sales Tax Act, 1990 value of supply means in respect of a taxable supply, 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. The Price of LNG is determined by OGRA in the light of components allowed by ECC in its various decisions such as ECC 87/11/2015 dated 06.06.2015 communicated by DG (Gas) vide its letter No. DGO(AC)-5(235)/15-LNG dated July 27, 2015.

During audit of PSO for the FY 2023-24 it was observed that company sold LNG to SNGPL. The company invoiced after including the components; SBLC commission, wharfage, Exchange Gain / (Loss) Adjustments - June 2015 to October, 2021, custom duty, infrastructure cess, excise duty, PSO margin on DES price. OGRA after reviewing the component, determined the LNG price for SNGPL. On the notified price, the company charged sales tax @ 18% from the

SNGPL. The scrutiny of record revealed that for the purpose of sales tax, Sindh infrastructure cess should not be included in the value of LNG. The reason is that it is a fee and not tax or duty as covered in the definition of value of supply for the purpose of charging sales tax. In concluding that cess is a fee, Audit placed reliance on the verdict of Apex Court in case of Civil Appeal Nos 1540-1599 of 2013 and Civil appeal No 21 of 2014, wherein the Court declared the GIDC a fee.

Audit is of the view that due to inclusion of amount of infrastructure cess in the value of supply the company charged Rs 2.137 Billion excess sales tax from SNGPL. This resulted in the overcharging of sales tax and thus extra burden had been passed on the consumers of LNG, amounting to Rs 2.137 Billion for the FY 2023-24.

The matter was reported to the management in September, 2024. In DAC meeting held on January 08 & 09, 2025, the management explained that the charging of sales tax was governed by Sales Tax Act, 1990. Sindh, Infrastructure Development Cess was received from customers as part of the sale price, it became part of the consideration for the supply as per aforesaid subsection. Therefore, it should be included in the taxable value for the calculation of Sales Tax. Moreover, the matter was also under litigation in the court of law.

Audit contended that in the definition of the value of supply, it was emphasized that value of supply includes, consideration in money including all Federal and Provincial duties and taxes, which clarified that in consideration received only governments' duty and taxes should be included and Cess did not fall under these categories, so it should not be included.

The DAC directed the management to pursue the case in the court of law. No further progress was reported till finalization of the report

Audit recommends to pursue the case besides referring the case to Law and Justice Division for clarification.

[DP No. 3271]

2.4.4.18 Blockage of Government Revenue due to litigation without merit - Rs 437.305 million

According to Section 33 of Sales Tax Act, 1990 any person who fails to deposit the amount of tax due or any part thereof in the time or manner laid

down under this Act, or rules or orders made there under, shall pay a penalty of ten thousand rupees of five percent of the amount of tax involved, whichever is higher. Further Section 34 of Act ibid provides that if a registered person does not pay the tax due or any part thereof, whether wilfully or otherwise, in time or in the manner specified under this Act, rules or notifications issued thereunder or claim of a tax credit, refund or makes an adjustment which is not admissible to him, or incorrectly applies the rate of zero percent to supplies made by him, he shall, in addition to the tax, pay default surcharge at the prescribed rates. However, exemption from penalty and default surcharge of entire amount or partial amount is available under Section 34A of Sales Tax Act, 1990 subject to notification by Federal Government in official Gazette or by Board by special order published in Gazette for reasons to be recorded in writing, exempt any person or class of persons.

During audit of PSO for FY 2023-24, it was observed that PSO is in litigation with FBR on the matter of delayed payment of sales tax and imposition of penalty and default surcharge by the Board, despite the fact that PSO had no legal footing on that issue and all the forums prior to Sindh High Court Sindh had decided the case against the company, now the case is pending before the Sindh High Court.

Audit is of view that according to the law, there is no exception from the payment of penalty and default surcharge except as provided in the Section 34A. Instead of taking the matter through its administrative ministry under Rule 9 and 14 of Rule of Business, 1973, PSO preferred to involve in litigations without merit as Sales tax provides no exemption for the payment of its dues on the ground that company was facing shortage of funds. This resulted in blockage of government revenue to the tune of Rs 437.305 million and litigation without merit.

The matter was reported to the management in September, 2024. In DAC meeting held on January 08 & 09, 2025, the management stated that PSO faced severe financial constraints in April 2011 due to the circular debt crisis, exacerbated by delayed government payments and significant receivables from key customers. The imposition of penalty and default surcharge by the appellate fora of the FBR was challenged by the company in Sindh High court. However, the FBR waived off the penalty of Rs 355 million and currently issue of default surcharge was sub-judice.

The DAC directed the management to get the wavier amount of Rs 355 million verified from Audit and pursue the case. No further progress was reported till finalization of the report

Audit recommends to take up the matter under Sales Tax Act, 1990 with FBR or Federal Government through its concerned Ministry for resolution.

[DP No. 3285]

2.4.4.19 Short-withholding and non-payment of Income Tax - Rs 262.374 million

According to Section 149 of Income Tax Ordinance, 2001 every person paying salary to an employee shall at the time of payment, deduct tax from the amount paid at the employees' average rate of tax. Further Section 12 & 13 of Income Tax Ordinance, 2001 provides the definition of the salary and criteria for taxability of perquisites received from employer.

During audit of PSO for the FY 2023-24, it was observed that the company, failed to perform its function as a with-holding agent and resultantly short deducted the Income Tax in government exchequer on the ground that either the amount provided to employees for purchasing the vehicle was not to be considered for tax calculation or on the transfer of company's vehicle to entitled employees, the market value of vehicles was not considered for tax calculation of the employees. It was also observed that management did not consider the insurance premium paid by employer on behalf of employees and aggregation of interest-free loans beyond the threshold for tax calculation of the employees.

Audit is of view that the company did not perform its withholding function as per law. This resulted in short withholding and payment of income tax of Rs 262.374 million. No reply was furnished till the finalization of this inspection report.

The matter was reported to the management in September, 2024. In DAC meeting held on January 08 & 09, 2025, the management contested the contention of the para and emphasised that in all narrated cases, the tax was correctly withheld by the PSO and deposited into Government Exchequer.

The DAC directed the management to assess the market value of the assets and deduct the tax accordingly in case of vehicles transferred to employees and seek opinion/advice from their tax advisor on the taxability of

amount provided by company for purchasing the vehicle and aggregation of interest free loans beyond the prescribed threshold. The DAC further, directed the management to take up the matter with FBR for guidance / clarification on the issue of taxability of insurance premium paid by employer. No further progress was reported till finalization of the report.

Audit recommends to expedite the recovery and process of seeking the advice from concerned fora and initiate action accordingly.

[DP Nos. 3286, 3287, 3289 & 3292]

2.4.4.20 Weak security features of the PSO Card resulted in irrational card transaction - Rs 243.746 million

According to PSO Cards Operations Terms & Conditions, the operator of POS card terminal shall not provide cash to card holder against card transactions. Further the storage license issued to petrol pump by the Explosives Department for retail outlets ranges from 20,000 litres to 95,000 litres as per technical requirement approved by Explosive Department.

During audit of PSO for the FY 2023-24 it was observed that in the month of November, 2023 abnormal card transactions of Rs 45.472 million and Rs 27.513 million were incurred at one time against the cards issued to Fatima Fertilizers. From the total transactions of Rs 248.58 million, only a transaction of Rs 5.180 million was acknowledged by the company upon the issuance of the invoice. PSO took up the matter with FIA. The abnormal transactions of Rs 45.574 million and Rs 27.513 million and others similar transactions reflect that there was weakness in controls and proper monitoring at PSO Card Division. This also indicates that security features of the cards are weak, which did not restrict the volume of transactions at one time in any given day.

Audit is of view that weak security features and lack of controls, resulted in irrational transaction of Rs 243.746 million.

The matter was reported to the management in September, 2024. In DAC meeting held on January 08 & 09, 2025, the management explained that PSO approached FIA on January 8, 2024 to register a complaint against Fatima Fertilizer (Customer) and its employees, along with all necessary documentation, to probe and recover the dues. Now the matter is under investigation with FIA. PSO withheld payments of Rs 122.400 million. An additional amount of

Rs 20.000 million was also recovered from the transporter. Against the remaining Rs 101.300 million principal amount, the customer opened a joint escrow account with PSO and deposited 121.88 million till the complete recovery from transporter. The PSO further elaborated that it had strengthened the security features of the cards.

The DAC directed the management to get the recovered amount verified from Audit and pursue the recovery of remaining amount. No further progress was reported till finalization of the report.

Audit recommends to expedite the recovery along with late payment surcharge.

[DP No. 3279]

2.4.4.21 Non-payment of Property tax and Un-justified expenditure on Litigation without merits - Rs 1.700 million

According to Section 42 of the Specific Relief Act, 1877, any person entitled to any legal character, or to any right as to any property, may institute a suit against any person denying, or interested to deny, his title to such character or right, and the Court may in its discretion make therein a declaration that he is so entitled, and the plaintiff need not in such suit ask for any further relief: Provided that no Court shall make any such declaration where the plaintiff, being able to seek further relief than a mere declaration of title, omits to do so.

During audit of PSO for the FY 2023-24, it was observed that PSO had been utilizing various plots of Karachi Port Trust since long and paying the property tax for such land directly to the Excise and Taxation Department of Sindh. The PSO by filing the suit before Sindh High Court, for injunction of recovery of Rs 39.782 million from Sindh Government along with markup @ 18% or at any other reasonable rate on the aforesaid amount from the date of filing of suit till recovery, and recovery of cost of Suit, halted the payment of property tax on the various grounds. The suit was dismissed by the Sindh High Court. From the scrutiny of the case file, Audit observed that PSO had admitted that it was already paying the property tax to Government directly and in the lease agreement with the KPT, the PSO mutually agreed that “the tenant shall pay to the Board all rates, taxes, charges, assessments, duties, imposition and other outgoings whatsoever now or hereafter during the said term to become payable in respect of the premises or any part thereof or any building or erection built or to be built thereon”. Audit contends that PSO should initiate steps for

rectifying the lease deed to hold KPT responsible to pay taxes under Specific Relief Act, 1877. This resulted in non-payment of Property Tax and unjustified expenditure on litigation without merit amounting to Rs 1.7 million.

Audit is of the view that un-necessary litigation not only deprived the Sindh Government of the property tax but also involved the litigation cost.

The matter was reported to the management in September, 2024. In DAC meeting held on January 08 & 09, 2025, the management stated that PSO had contested the Property Tax Levy, asserting that KPT terminals, being government-owned and used for public purposes, were exempt under the Sindh Urban Immovable Property Tax Act, 1958. PSO had filed an appeal to challenge the court's ruling.

The DAC directed the management to get the stated stance verified from Audit. No further progress was reported till finalization of the report.

The Audit recommends to pursue the matter in the court of law, besides the provision of record in support of company's stance.

[DP No. 3308]

2.4.4.22 *Transportation of POL products through 5,705 non-compliant Tank Lorries in violation of Pakistan Oil Rules, 2016*

According to Rule 53(viii) of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, all licensees, in relation to their regulated activity, shall carry out regulated activity in accordance with the technical standards applicable to the midstream and downstream petroleum industry. Further, according to S.R.O. 900(I)/2009, Technical Standards for the Petroleum Industry (Road Transport Vehicles, Containers, and Equipment Used for the Transportation of Petroleum Products), these standards apply to all road transport vehicles, containers, and equipment used for the transportation of petroleum products by the Oil Marketing Companies. All existing road transport vehicles, containers, and equipment used for the transportation of petroleum products must be upgraded to conform to the requirements of these standards within 05 years from the date on which these standards are made effective.

During audit of PSO for FY 2023-24, it was observed that for road transportation of petroleum products, the company is using 10,121 fleet of active tank lorries of 454 contractors. From the available fleet of tank lorries only 4,416 are compliant with OGRA standards. It was also reported that during the year

under audit, 28 accidents of tank lorries were reported, out of which 18 tank lorries were not meeting the OGRA standards.

Audit is of the view that using the fleet of tank lorries not adhering to technical standards, not only increases the chances of hazardous incidents, but also results in loss of products as well as adversely impacts the environment.

The matter was reported to the management in October, 2024. In DAC meeting held on January 08 & 09, 2025, the management stated that PSO operates a fleet of 9,706 tank lorries, with 4,423 compliant to OGRA standards, and has implemented strict HSE checks, including vehicle fitness certificates, axle-load compliance, and defensive driving training. Despite challenges like fluctuating targets and external accident factors, PSO maintains over 70% of shipments from Karachi using compliant vehicles and is committed to improving safety and fleet standards.

The DAC directed the management to pursue matter with contractor for ensuring availability of the fleet meeting the OGRA Standards. No further progress was reported till finalization of the report.

Audit recommends to adopt a proactive approach to mitigate the risks associated with non-compliant tank lorries by upgrading the vehicles in accordance with OGRA standards.

[DP No. 3295]

2.4.4.23 Operating of Retail Outlets without obtaining the License from Department of Explosives

According to Rules 90 of Petroleum Rules, 1937 no one shall store any petroleum except under the license granted under these rules. Rule 115 provides that licenses for importation and storage may be granted by the licensing authorities set forth in Schedule I in the forms, for the purposes and payment of the fees, specified therein. License in Form K is required for storage of petroleum for retail outlets under Schedule-I.

During audit of PSO for the FY 2023-24, it was observed that PSO was operating 3,551 retail outlets across the country as observed from the Product Movement Plan submitted to OGRA for IFEM calculation, whereas, licensing authority of Form K i.e. Department of Explosives intimated on May 07, 2024 to OGRA, that there were 3,138 retail outlets of PSO having the form K across the

country. This revealed that 413 retail outlets having the lease agreement with PSO are operating without valid form K.

Audit is of view that poor monitoring by PSO on the retail outlets resulted in non-availability of valid explosive licenses and resulted in operation of retail outlets without a valid license from Department of Explosive.

The matter was reported to the management in October, 2024. In DAC meeting held on January 08 & 09, 2025, the management explained that the main reason of difference is due to non-issuance of license by the Department of Explosive due to the demand by them for registration of leases which was challenged by PSO in the court and the decided in favour of PSO. Now the DOE has started issuing licenses. Furthermore, as per rule 119 (2) of the Petroleum Rules, 1937 (the “Rules of 1937”) PSO has submitted the challans and as per the said rule the premises shall be held to be duly licensed until such date as DOE renews the license.

The DAC directed the management to reconcile the figure with DoE. DAC further directed the management to submit detailed reply on case-to-case basis. No further progress was reported till finalization of the report.

Audit recommends to take up the matter with Department of Explosives (Petroleum Division) for reconciliation of data of retail outlets and in case of any discrepancy found may be rectified as per rules.

[DP No. 3261]

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 and 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 and deals with the business of purchase, transmission and distribution of natural gas, RLNG and LPG. Direct and indirect shareholding of GoP is more than 57.96% with direct shareholding of GoP 31.68%. SNGPL is largest gas company in Pakistan having 7.559 million consumers and an extensive network of pipeline of 155,379 KMs in Punjab, Khyber Pakhtunkhwa and Azad Jammu & Kashmir.

(B) Financial Performance

(Rs in million)			
Details	2023	2022	2021
Sales	1,081,530	1,076,740	644,504
Add / (Less): Tariff adjustment / GDS	377,514	216,937	113,123
Net Sales	1,459,044	1,293,677	757,627
Cost of gas sold	(1,331,585)	(1,208,155)	(704,775)
Gross Profit	127,458	85,522	52,852
Other operating income	36,288	21,452	19,513
Operating expense	(19,458)	(16,658)	(15,684)
Finance Cost	120,521	(57,296)	(40,037)
Take or pay adjustment	-	(13,768)	-
Expected Credit Loss	1,973	(1,209)	-
Other Charges	6,022	(2,539)	(802)
Profit / (Loss) before taxation	15,772	15,504	15,842
Dividend %	45	40	40
No. of employees	8,278	8,488	8,709
Consumers in Numbers	7,570,254	7,559,609	7,330,880
T&D Network in KM)	158,481	155,379	152,173

(Source: Annual Audited Accounts)

2.5.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 281,002.666 million were raised in this report during the current audit of SNGPL. This also includes recoverable amount of Rs 79,159.440 million as pointed out by Audit. Summary of audit observations classified by nature is as under:

Overview of Audit Observations

(Rs in million)		
Sr. No.	Classification	Amount
1	Non-production of record (one para)	-
2	Irregularities	-
A	Financial Management	184,059.636
B	Operation Management	48,688.917
C	Procurement & Inventory Management	1,910.679
D	Project Management	17,026.012
E	HR / Employee Related Irregularities	211.105
F	HSE, Quality Assurance and Risk Management	-
G	Regulatory Compliance	29,036.501
H	Others	69.816
3	Para from IS Audit Report on CC&B System of SNGPL & SSGC	-
Total		281,002.666

2.5.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
1991-92	15	9	6	60
1992-93	16	15	1	94
1993-94	12	10	2	83
1995-96	10	8	2	80
1996-97	16	15	1	94
1998-99	10	9	1	90
2000-01	20	15	5	75
2001-02	9	6	3	67
2003-04	7	6	1	86
2006-07	12	10	2	83
2007-08	18	15	3	83
2008-09	22	20	2	91
2009-10	11	10	1	91
2010-11	48	40	8	83
2011-12	17	15	2	88
2012-13	7	5	2	71
2013-14	15	14	1	93

2014-15	5	1	4	20
2015-16	18	10	8	56
2016-17	56	35	21	63
2017-18	36	18	18	50
2018-19	19	4	15	21
2019-20	23	14	9	61
2021-22	8	0	8	0
Total	430	304	126	71

Overall compliance of PAC directives was not satisfactory which needs immediate attention of the Principal Accounting Officer.

2.5.4 Audit Paras

2.5.4.1 *Non-production of record*

Section 14(2) of 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 records for audit inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition. Further, according to Section 14(3) of Ordinance *ibid*, any person or authority obstructing the auditorial functions of the Auditor-General regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Discipline Rules, applicable to such person.

During audit of SNGPL for the FY 2023-24, Audit requested to provide the record of 26,812 pending recovery and declaratory suits involving an amount of Rs 25,913.978 million as well as court cases decreed in favor of the company up to June, 2024, aging of pending cases, list of advocates at the panel of the company, their nomination letters along with fee paid and legal opinions sought from other law firms. However, despite several reminders, record relating to the cases initiated during the FY 2023-24 was provided instead of provision of complete requisitioned record up to June, 2024.

In such circumstances the performance of Law Department could not be verified nor could the constitutional duty of the Auditor-General of Pakistan be fulfilled.

The matter was reported to the Petroleum Division in November and December, 2024 for necessary intervention but no record was provided.

Audit recommends to enquire the matter for non-provision of record besides taking corrective measures for speedy disposal of pending cases.

[DP No. 3510]

Financial Management

2.5.4.2 *Non-realization of gas charges and security shortfall from various defaulters - Rs 181,006.465 million*

According to the Para 10.1 read with Para 11.6.3 (ii), 13.1 and 13.2 of 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 and it will also be ensured that all industrial, commercial and domestic consumers, whose bills exceed the security deposit, are disconnected immediately.

During audit of SNGPL for the FY 2023-24, it was observed that management failed to recover outstanding gas, pilferage charges, security short fall and arrear of gas bills from 1,998 consumers amounting to Rs 139,263.465 million. Similarly, management did not recover cost of RLNG amounting to Rs 41,743 million from SSGC. This resulted in non-recovery of gas charges and security shortfall from various defaulters of Rs 181,006.465 million

Audit is of the view that weak internal controls resulted in non-realization of gas charges from the defaulters.

The matter was reported to the management during August to November, 2024. The management in its replies dated December 23, 2024, stated that an amount of Rs 16,021.680 million had been recovered / adjusted, an amount of Rs 25,326.116 million was not due being recovered prior to audit. Recovery suits of Rs 25,670.965 million had been filed against the defaulters and recovery of remaining amount was under process. Further, OGRA had appointed a consultant on the issue of receivable from SSGC, matter would be resolved after report of consultant.

The DAC in its meeting held on January 15-17, 2025, directed the management to get the recovered amount attested from Treasury department, expedite the recovery of remaining amount and pursue the court cases vigorously. DAC further directed the management to pursue the matter with OGRA in case of recovery of cost of RLNG from SSGC. No further progress was reported till finalization of the report.

Audit recommends to get the recovered amount verified and pursue the court cases and matter with OGRA vigorously.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2022-23, 2021-22, 2020-21, 2019-20 and 2018-19 vide para numbers 2.5.4.6, 2.5.4.13, 2.5.6.4, 2.5.6.16 and 2.5.4.4 having financial impact of Rs 13,749.590 million, Rs 13,474.270 million Rs 86,146.550 million, Rs 58,049.650 million and Rs 18,252.320 million. Recurrence of same irregularity is a matter of serious concern.

[Annex-6]

2.5.4.3 Non-resolving of disputed invoices with NPPMCL – Rs 1,394.913 million

According to Section 3.6 of Gas Supply Agreement with SNGPL and National Power Parks Management Company (Private) Limited (NPPMCL) dated October 29, 2016 defines Monthly Take or Pay Quantity and provides a mechanism for its calculation.

During audit of SNGPL for the FY 2023-24, it was observed that management failed to resolve the outstanding issues of disputed monthly Take or Pay Quantity (TOP) against RLNG supply invoices for the months of November, 2020 & April, 2021 to National Power Parks Management Company (Private) Limited (NPPMCL) as per their respective Annual Delivery Plans (ADPs). This resulted in non-recovery of Rs 1,394.913 million.

Audit is of the view that weak financial management resulted in non-resolution of disputed invoices.

The matter was reported to the management during November, 2024. The management in its reply dated December 23, 2024, stated that in light of directions from Cabinet Division conveyed vide letter dated November 02, 2023, the parties entered into a side agreement for one-time local arbitration to settle the dispute through arbitration.

The DAC in its meeting held on January 15-17, 2025, directed the management to pursue the Arbitration process vigorously. No further progress was reported till finalization of the report.

Audit recommends to resolve the issue regarding recovery of revenue along with markup.

[DP No. 3221]

2.5.4.4 Undue retention of funds of BESOS - Rs 864.815 million

Supreme Court of Pakistan issued a detailed order on October 22, 2020, declaring that BESOS (Benazir Employees Option Stock Scheme) was executed in breach of Article 154 of the Constitution of the Islamic Republic of Pakistan. Further, the Finance Division vide O.M dated May 09, 2022 requested the Petroleum Division that Finance Division is under significant fiscal pressure to

meet the budgetary shortfall. Therefore, concerned SOEs may be directed to deposit the BESOS balance in Federal Consolidated Fund within 07 days.

During audit of SNGPL for the FY 2023-24, it was observed that SNGPL Employees Empowerment Trust (“Trust”) was established vide a Trust Deed under BESOS on August 14, 2009. The Trust held 12% shareholding of the company. After the decision of Supreme Court of Pakistan and Finance Division’s instructions mentioned above, SNGPL was to disband the Trust and deposit the funds of Rs 864.815 million under the BESOS in the Federal Consolidated Fund. However, the order of the Supreme Court of Pakistan and instructions of Finance Division were not implemented despite lapse of more than 4 years. This resulted in undue retention of funds of BESOS amounting to Rs 864.815 million.

Audit is of the view that non-implementation of judgment of Honourable Supreme Court of Pakistan and instructions issued by the Federal Government resulted in undue retention of dividend of Rs 864.815 million and non-transfer of shareholding under BESOS to Federal Government.

The matter was reported to the management in November, 2024. The management in its reply dated December 23-26, 2024, stated that Company sought guidance from the Ministry of Energy (Petroleum Division), regarding winding up of SNGPL BESOS Trust which was awaited. Further course of action would be decided in the light of guidance received from the Ministry.

The DAC in its meeting held on January 15-17, 2025, directed the management to pursue the matter with Petroleum Division to resolve the issue within one month. DAC further directed the management to follow the instructions of Finance Division issued in May 2022 and deposit the amount in the Federal Consolidated Fund. No further progress was reported till finalization of the report.

Audit recommends to implement Judgment of Supreme Court of Pakistan and instructions of the Finance Division.

[DP No. 3199]

2.5.4.5 Irregular withdrawal from Assignment Account - Rs 439.095 million

According to Section 23 of Public Financial Management Act, 2019, 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 2 (1) xvi of Asaan Assignment Accounts Procedure 2023 applicable from February 01, 2023, cash withdrawal or transfer of funds to any bank account is not allowed except for employees related deductions like pension contribution and GP Fund etc. these deductions shall be made as per Rules / Policy Guidelines / Procedure of the relevant offices.

During audit of SNGPL for the FY 2023-24, it was observed that SNGPL's Assignment Account was credited with Rs 1,086 million as GOP funding to finance government share of cost of gas development schemes. Out of this, an amount of Rs 439.095 million was transferred from assignment account to SNGPL's bank account in violation of the provisions of Asaan Assignment Account Procedure 2023. The payments were required to be made directly to contractors, vendors, suppliers or employees through crossed cheques of Assignment Account. This resulted in irregular transfer of funds in the account of the company.

Audit is of the view that weak financial controls resulted in irregular transfer of funds from Assignment Account and retained in the commercial account of the company.

The matter was reported to the management in November, 2024. The management in its reply dated December 23, 2024, stated that funds were withdrawn from the Assignment Account strictly in accordance with the Asaan Assignment Account procedure read with relaxation granted to Sui Companies, vide Finance Division's letter dated May 14, 2022 which allowed the SSGC and SNGPL to utilize the funds directly from Assignment Account to meet the expenditure.

Audit contended that letter referred above was specifically issued for Export Processing Zones under Assignment Account Procedure, 2020. Separate approval was required under Assan Assignment Account Procedure, 2023.

The DAC in its meeting held on January 15-17, 2025, directed the management to take up the matter with Finance Division for clarification. No further progress was reported till finalization of the report.

Audit recommends that matter be justified and corrective measures be taken to regularize the violation of rules.

[DP No. 3191]

2.5.4.6 Non-adjustment of gas bills and LPS amount charged to consumer due to wrong punching by NIFT - Rs 336.368 million

According to para 6.9 of Treasury Manual, revenue summaries for reconciliation are received from Service Provider by Area In-charges up to 10th of following month. Collection Section starts working on revenue summaries through ticking of scrolls punched and funds received. Branch wise detail of un-posted funds, amounts in transit and over credit are prepared.

During audit of SNGPL for the FY 2023-24, it was observed that no mechanism for adjusting of gas bills amounts and late payment surcharge (LPS) due to incorrect punching by National Institutional Facilitation Technologies Private Ltd. (NIFT) existed in SNGPL. This resulted in non-adjustment of Rs 336.368 million to consumers due to wrong punching by NIFT since 2021-22.

Audit is of the view that absence of a well-defined process for handling billing errors created undue burden on consumers.

The matter was reported to the management during August to October, 2024. The management in its reply dated December 23, 2024, stated that an amount of Rs 321.000 million had been adjusted / refunded to consumers. Adjustment of remaining amount was in progress.

The DAC in its meeting held on January 15-17, 2025, directed the management to get the stated stance verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to develop a mechanism so that the customer is not made to suffer unnecessarily.

[DP No. 3211]

2.5.4.7 Non-deposit of unclaimed dividend in Government Account – Rs 17.980 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 followed by final notice to be published in two daily newspapers. If no claim is made before the company by the shareholders, the company shall deposit the unclaimed or unpaid amount to Federal Government.

During audit of SNGPL for the FY 2023-24, it was observed that total dividend payable stood at Rs 231.708 million as on June 30, 2024. Out of this an amount of Rs 17.980 million for the FY 2019-20 was added as unclaimed dividend in current year as it was not paid since more than 3 years. This resulted in undue retention of unclaimed dividend of Rs 17.980 million by the company.

Audit is of the view that weak pursuance with competent fora led to non-deposit of unclaimed dividend in Federal Government Account.

The matter was reported to the management in November, 2024. The management in its reply dated December 23, 2024, stated that as required U/S 244 of the Companies Act, 2017, Federal Government had not yet notified any account in which unclaimed or unpaid amount was required to be deposited. The matter regarding opening of bank account was taken up with SECP. In response SECP informed that the bank account for depositing unclaimed dividend had not yet been notified.

The DAC in its meeting held on January 15-17, 2025, reiterated its earlier directives dated 05-07 November, 2024. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter with competent fora and transfer the unclaimed amount to the Federal Government Account. Audit also recommends that Petroleum Division should take up the matter at the appropriate forum to resolve the long outstanding issue.

[DP No. 3197]

Operation Management

2.5.4.8 Loss of revenue due to weak network surveillance and delayed detection of illegal gas connections – Rs 768.338 million

According to KMIs 18 issued by OGRA, vide No. OGRA-9(472)/2018, dated February 28, 2018, "Re-inspection of 100% disconnected industrial

consumers quarterly. Service line to be removed / plugged in accordance with Performance and Service Standard”. According to Section 27 of Chapter V of OGRA Ordinance, 2002, “where any person has stolen, unauthorizedly obtained or otherwise used, petroleum for which he has not paid, such person shall be liable to pay the value of the petroleum for which he has not paid, such person shall be liable to pay the value of the petroleum stolen, obtained or used as may be determined in accordance with the rules”.

During audit of SNGPL for the FY 2023-24, it was observed that the gas connections of M/s Feroze Pottery and M/s Atta Ullah Pottery, Gujrat were disconnected on February 25, 2020 & April 21, 2021 respectively due to non-payment but no vigilance was carried out since then. However, the vigilance team of Regional Office Gujrat raided the disconnected premises on December 12, 2023 & August 07, 2023 and found that illegal direct connection of pipeline inside the factory was connected to SNGPL pipeline. Resultantly, the management charged gas pilferage amount of Rs 29.734 million for 69 days in case of M/s Feroze Pottery and Rs 157.611 million for 365 days in case of M/s Atta Ullah Pottery. This resulted in loss of revenue of Rs 768.338 million (gas pilferage chargeable for three years amounting to Rs 955.683 million less gas pilferages charged amounting to Rs 187.345 million) due to weak network surveillance and delayed disconnection.

Audit is of the view that weak network surveillance, delayed detection of illegal gas network and unjustifiable determination of loss volume of gas caused loss to the company of Rs 768.338 million.

The matter was reported to the management during August, 2024. The management in its replies dated December 23, 2024, stated that vigilances of the disconnected consumers was being carried out regularly but no pilferage of gas was reported. Later on, during vigilance by Gujrat region team, the consumers were caught red handed on December 04, 2023 and August 7, 2023 while using gas through illegal bypass which was removed. FIR was lodged against the consumers. The theft charges were calculated as per procedure and recovery suit had also been filed.

The DAC in its meeting held on January 15-17, 2025, directed the management to share the vigilance reports and SMS reconciliation reports from April 01, 2021 to September 30, 2023 in respect of Feroze Pottery and from

August, 2022 to May, 2023 in respect of Attaullah Pottery. No further progress was reported till finalization of the report.

Audit recommends justifying the position besides fixing responsibility and taking remedial action.

[DP Nos. 3213 & 3214]

2.5.4.9 Delay in resolving critical complaints against the Performance and Service Standards of OGRA

According to Para 4(3) of Performance and Service Standards issued by OGRA, “all complaints shall be recorded whether received by phone, letter, electronically or in person. The Licensee shall intimate the complaint number to the consumer. Complaints about gas smell, asphyxiation, fire, gas pipe breakage, explosion or building collapse, etc., shall be dealt with as per gas emergencies. All other complaints, which are determined to be low risk, i.e., not involving loss of life or property shall be responded to within 24 hours”.

During audit of SNGPL, for the FY 2023-24, it was observed that the Regional Offices of SNGPL, Lahore in 75 cases, Sialkot in 176 cases and Gujrat in 1,057 cases did not resolve the critical complaints like gas leakages at regulators / meters etc. within prescribed time. A delay up to 299 days was observed in resolution of these urgent nature complaints.

Audit is of the view that non-compliance of standards set by OGRA delayed resolution of complaints.

The matter was reported to the management during August to November, 2024. The management in its replies dated December 23, 2024, stated that all types of leakage complaints were initially attended within the prescribed timelines. However, some complaints experienced delay due to external factors such as ditching issues, obstructions from locals, difficulties in line location and presence of water in the streets.

The DAC in its meeting held on January 15-17, 2025, directed the management to get the 100 most delayed cases verified from Audit with detailed justification. No further progress was reported till finalization of the report.

Audit recommends to justify the above position besides improving internal controls for compliance of standards.

[DP Nos. 2987 & 3079]

**2.5.4.10 Non-recovery of gas charges and LPS due to non-finalization of GSA
– Rs 44,040 million**

According to Clause 4.1(b) of SNGPL's Business Development (Corporate) Manual, BD-Corporate is responsible for to negotiate / finalization LNG /RLNG agreements including but not limited to Gas Sales Purchase Agreements (GSPAs) with upstream LNG /RLNG suppliers, Gas Transportation Agreements (GTAs) / Access Arrangements with potential shippers and Gas Supply Agreements (GSAs) with downstream consumers (both RLNG and system Gas) in coordination with other sections and departments.

During audit of SNGPL for the FY 2023-24 it was observed that gas was being supplied to Liberty Power Ltd (LPL) without valid GSA since 2015. An amount of Rs 14.085 Billion (Rs 12.716 Billion principal and Rs 1.369 Billion LPS) was recoverable from M/s LPL as on June 30, 2024. Similarly, the gas was being supplied to Guddu Power Plant since 2003 without valid GSA, resultantly huge amount of Rs 29.955 Billion (Rs 10.741 Billion principal amount and Rs 19.215 Billion LPS) was recoverable. This resulted in non-recovery of gas charges and LPS of Rs 44,040 million due to non-finalization of GSA.

Audit is of the view that weak operational management resulted in non-finalization of GSA.

The matter was reported to the management in November, 2024. The management in its reply dated December 23, 2024, stated that Rs 15,403 million had been recovered / adjusted. Further, SNGPL was pursuing the matter with Liberty Power, Guddu Power and Petroleum Division for finalization of GSA. However, the same could not be finalized.

The DAC in its meeting held on January 15-17, 2025, directed the management to get the recovered amount verified from Audit after attestation from Treasury department of SNGPL. DAC further directed the management to pursue the matter with Petroleum Division and other stakeholders for early finalization of GSA. No further progress was reported till finalization of the report.

Audit recommends taking steps for early finalization of pending GSAs besides recovery of outstanding amount.

[DP No. 3190]

2.5.4.11 Inefficiency of law department resulting in backlog of pending recovery suits - Rs 3,604.937 million

According to Para 17 of Billing Manual of SNGPL, recovery suits will be filed as per SOP for initiating recovery suits against disconnected defaulted consumers having arrears above Rs 40,000 (or any other amount approved by competent authority from time to time) after adjustment of their security deposit. Regional BD head, after consolidation of documents, will forward the same to law department for further process to file recovery suit before court of law.

During audit of SNGPL for the FY 2023-24, it was observed that management failed to provide the property document against recovery suits of Rs 2,647.550 million decided in favour of the company by the Courts. Further, recovery suits of Rs 933.382 million against the government institutions were filed instead of referring the matter to the Secretary Petroleum Division for resolution of the issue in Secretaries Committee. Furthermore, recovery suits of Rs 24.005 million were filed by the management but the same were dismissed due to non-provision of required evidence before courts. This resulted in non-recovery of gas charges of Rs 3,604.937 million.

Audit is of the view that due to inefficiency and negligence of law department recovery suits were pending since long.

The matter was reported to the management in August to October, 2024. The management in its replies dated December 23, 2024, stated that the cases of SNGPL were being followed with utmost vigilance and active pursuance, however the pendency of cases was owing to the judicial and legal procedures involved therein. An amount of Rs 107.62 million had been recovered. Further, the management had taken up the matter of gas arrears from the respective ministries. Moreover, appeals were filed in the High Courts against the decisions of lower courts.

The DAC in its meeting held on January 15-17, 2025, directed the management to provide the case wise status besides pursuing the court cases vigorously. DAC further directed to take up the matter with Petroleum Division regarding recovery from government consumers. No further progress was reported till finalization of the report.

Audit recommends to pursue the court cases vigorously besides recovery from the consumers.

[DP Nos. 2990, 2991, 3001, 3062, 3078 & 3192]

2.5.4.12 Non-initiation of criminal proceedings against defaulter – Rs 275.642 million

According to Section 489(F) of Pakistan Penal Code, whoever dishonestly issues a cheque towards re-payment of a loan or fulfillment of an obligation which is dishonoured on presentation, shall be punishable with imprisonment which may extend to three years, or with fine, or with both, unless he can establish, for which the burden of proof shall rest on him, that he had made arrangements with his bank to ensure that the cheque would be honoured and that the bank was at fault in not honouring the cheque.

During audit of SNGPL for the FY 2023-24 it was observed that management issued award letter on January 31, 2024 for auction of scraped meters valuing Rs 303.962 million to M/s Abdullah Engineering Works. The firm deposited 10% payment in advance but failed to deposit the remaining amount of Rs 275.462 million within specified time. The management issued final notice for cancellation of bid on March 29, 2024. Subsequently, the firm submitted a cheque dated March 29, 2024 which was presented in the bank but the cheque was returned by the bank with the remarks “Payment stopped by drawer”. Instead of initiating criminal proceedings against the defaulting firm, the management cancelled the bid and re-floated the tenders for fresh auction. M/s Abdullah Engineering filed a writ petition against SNGPL and got stay order against the re-tendering due to which the lots could not be auctioned. This resulted in unnecessary litigation and blockage of receipts due to non-auction of scrap material.

Audit is of the view that negligence on the part of management for non-initiation of criminal proceedings resulted in unnecessary litigation and blockage of receipts amounting to Rs 275.462 million.

The matter was reported to the management in November, 2024. The management in its reply dated November 12, 2024 stated that cancellation of awarded lots was issued on April 04, 2024 and 10% bid security was forfeited. M/s Abdullah Engineering deposited antedated cheque to SNGPL on April 08,

2024 which was sent to bank but payment was stopped by M/s Abdullah Engineering due to cancellation of award letter, therefore, no legal action was taken against M/s Abdullah Engineering. The management reply was not tenable as the bid was cancelled after depositing cheque in bank on April 29, 2024.

The DAC in its meeting held on January 15-17, 2025, directed the management to submit detailed revised reply to Audit with documentary evidence. No further progress was reported till finalization of the report.

Audit recommends fixing responsibility against the officer(s) responsible for non-initiation of criminal proceedings besides pursuance of court case vigorously.

[DP No. 3069]

2.5.4.13 Non-reconciliation of gas sales at Town Border Station meters

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. According to reference No. GM (RS)/01 dated August, 16, 2024, all TBS meters would be installed up to December, 2025.

During audit of SNGPL for FY 2023-24, it was observed that management installed 1,472 meters at Town Border Stations (TBS), but the reconciliation of these meters regarding input and output of gas meters was not conducted. This significant oversight prevented accurate determination of TBS-wise Unaccounted for Gas (UFG), defeating the purpose of meter installation. Further, SNGPL's slow progress in installing meters at Town Border Stations (TBS) raised concerns about meeting the December 2025 deadline. Only 1,472 TBSs meters were installed from 2019 to November 2024. The current pace was insufficient to install the remaining 5,507 TBSs within approved timelines. This resulted in non-achievement of targets and non-reconciliation of gas sales at Town Border Stations.

Audit is of the view that due to poor UFG management, gas losses, leakages or theft could not be identified in the absence of installation of TBS meters.

The matter was reported to the management during November, 2024. The management in its replies dated December 23, 2024, stated that out of 5,507 TBS meters, 2,670 meters had been installed. The remaining jobs would be completed by November, 2025. Reconciliation of 1,470 meters had been started since August, 2024.

The DAC directed the management to get the stated stance verified from Audit. DAC further directed to complete the assignment as per plan. No further progress was reported till finalization of the report.

Audit recommends to take immediate corrective actions for reconciliation of gas volumes at town border stations besides completion of projects within stipulated period.

[DP Nos. 3223 & 3224]

2.5.4.14 *Un-authorised installation of new domestic connection and issuance of demand notices*

According to instruction of GM (BDR) dated November 17, 2021 issued to all BD-R In charge that payment of Urgent Fee where bill was realized after cutoff date, November 12, 2021, shall not be entertained. Further, according to instructions issued by Senior General Manager (Dist.-North) vide letter dated December 25, 2021 read with Managing Director's approval dated December 24, 2021 regarding "Halting of Installation of New Gas Connections", installation of new domestic gas connections shall remain stopped till further instructions from MoE (PD). All the concerned may be advised in explicit terms that in case of any violation of management instructions, the concerned Regional Head, Sectional In-charge and Executives will be charge sheeted.

During audit of SNGPL for FY 2023-24, it was observed that the management installed one normal domestic connection on December 09, 2021 at Manshera in violation of the above instruction. Further, the management issued 411 demand notices for domestic RLNG connections after ban of new RLNG connections.

Audit is of the view that weak internal control resulted in unauthorized installation of new connection and issuance of DNPL.

The matter was reported to the management during November, 2024. The management in its reply dated December 23, 2024, stated that the case of

demand notice against free gas facility to company employee was issued on November 23, 2021. Initially certain categories such as RLNG and free gas facility connections were not banned and issuance of demand notice was also allowed on urgent fee cases where payment was made prior to November 12, 2021. The highlighted RLNG demand notices were issued prior to January 28, 2022. The replies of the management were not tenable as the instruction of GM (BDR), dated November 17, 2021 was issued to all BD-R in charge that payment of Urgent Fee where bill was realized after cutoff date, November 12, 2021, shall not be entertained. However, gas connection was installed and demand notices were issued in violation of above instruction.

The DAC in its meeting held on January 15-17, 2025, directed the management to conduct fact finding inquiries regarding installation of meter for SNGPL employee and issuances of demand notices during ban period and fix the responsibility on the person(s) at fault. No further progress was reported till finalization of the report.

Audit recommends investigating the matter and fixing responsibilities.

[DP Nos. 2988, 3208 & 3222]

2.5.4.15 Delayed replacement of industrial, commercial and domestic meters against the UFG reduction plan

According to Para 5.4.4 of UFG Control Department Manual of SNGPL, schedule replacement of meters of Industrial/Bulk Supply Consumers, Commercial / Special Domestic consumers (having EVC meters), Low pressure Commercial / Special Domestic consumers (without EVC meters) and Domestic Consumers are required at least once in a year, two years, five years and 15 years respectively.

During audit of SNGPL for the FY 2023-24, it was observed that management failed to replace 1,318 industrial meters within prescribed period of one year and replaced meters with delay ranging from 181 to 847 days. Further, 215 commercial / special domestic consumers meters were replaced after delay ranging from 181 days to 3,984 days. Similarly, 809 domestic consumer's meters were replaced with delay of 365 days to 595 days. This resulted in delayed replacement of industrial, commercial and domestic meters in violation of Manual.

Audit is of the view that weak UFG management caused non-observance of scheduled meters replacement.

The matter was reported to the management during November, 2024. The management in its reply dated December 23, 2024, stated that SNGPL had implemented scheduled meter replacement program and all the meters had already been replaced. There was some delay in replacement of commercial and domestic meters owing to scarcity of meters.

The DAC in its meeting held on January 15-17, 2025, directed the management to conduct fact finding inquiry to probe the delay and share report with Audit within two months. No further progress was reported till finalization of the report.

Audit recommends investigating the matter and fixing responsibilities.

[DP No. 3226]

2.5.4.16 Non-provision of gas to villages falling within 5-Km radius of gas producing fields of Punjab and Khyber Pakhtunkhwa

According to Case No. CCI. 1/4/2017, dated November 24, 2017 the expenditure involved in provision of gas to localities within 5-km radius of gas producing fields would be borne by distribution companies. In case of Balochistan, if no village is located within the 5 km radius, the provision of gas to nearest Tehsil/ District Headquarter would be ensured. The cost over & above the criteria will also be borne by gas utility companies which will be recovered through tariff adjustment. This however, will apply only to the locality / villages which fall within the 5 km radius of gas producing fields.

During audit of SNGPL for FY 2023-24, it was observed that the management failed to provide gas supply to villages within the 5-kilometer radius of gas-producing fields, specifically Dhoke Hussain well No. 1 in District Kohat and Dakhni Gas Field in District Attock in violation of the guidelines of CCI.

Audit is the view that due to non-implementation of CCI direction, gas supplies to the villages falling within the radius of 5-Km of gas producing fields was not made.

The matter was reported to the management during November, 2024. The management in its reply dated December 23, 2024, stated that keeping in view the large scope of the project, it was decided to undertake the project in phases. In first phase, work was initiated in one village of Punjab and one village of KP. Remaining phases of the project would be initiated after completion of phase-1 and with the provision of GoP funds.

The DAC in its meeting held on January 15-17, 2025, directed the management to pursue the matter with Finance Division through Petroleum Division for allocation of necessary funds to complete the jobs. No further progress was reported till finalization of the report.

Audit recommends to take necessary steps to ensure provision of gas to villages falling within 5 Km radius of gas producing fields.

[DP No. 3219]

Procurement & Inventory Management

2.5.4.17 Inaction against the persons responsible for theft at Manga Store - Rs 366.63 million

According to Clause 4.3.5 of Store Manual of SNGPL, every Store In charge will ensure that the material stacked in the packing / cartons / crates / pallets is checked at regular intervals and is re-stacked at least once a year, so as to eliminate the chances of any material theft or misappropriation going unnoticed for a long period of time. The Store In-charge will maintain record of such activity and submit completion report to GM (Stores).

During audit of SNGPL for the FY 2023-24, it was observed that fact-finding inquiry report regarding theft of Rs 366.630 million at Manga Store highlighted senior management's role in fostering issues, including favoritism, placement of allies, removal of dissenters and influencing inquiries to favor close associates. FIRs were selectively filed, shielding individuals within certain circles, undermining accountability and transparency. Despite identifying several responsible individuals, most remain employed, except two officers who were terminated. Further, recovery of Rs 366.630 million is still to be made from the persons involved.

Audit is of the view that weak internal controls resulted in loss due to theft of gas pipe.

The matter was reported to the management in November, 2024. In DAC meeting held on January 15 to 17 2024, the management stated the matter was under investigation with FIA. Interim challan was submitted by FIA in the Court. Further, the Chairman of fact-findings inquiry committee, while submitting the inquiry report, added an observation regarding influence and role of senior management. However, it was not substantiated by any specific instance or evidence.

The DAC directed the management to share the special audit report with Audit and pursue the case with FIA vigorously. No further progress was reported till finalization of the report.

Audit recommends taking action against the person(s) identified by the fact-finding committee and recovering the loss.

[DP Nos. 3187, 3233, 3240]

2.5.4.18 Un-necessary procurement resulting in blockage of funds – Rs 1,199.191 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. The slow-moving item mean, the item which was not issued for the last five years from the last issuance. 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 for the FY 2023-24, it was observed that the management held 28,262 non-moving items costing Rs 310.237 million and 233,854 slow-moving items costing Rs 888.954 million. The Coordinator (PB&MC) failed to exercise proper inventory control to avoid accumulation of un-necessary material which was not immediately required. Resultantly, an amount of Rs 1,199.191 million had been blocked since long which required immediate attention of higher management for arranging its early disposal thereof.

Audit is of the view that the poor inventory control and inefficiency on the part of management resulted in blockage of funds amounting to Rs 1,199.191 million.

The matter was reported to the management in November, 2024. In DAC meeting held on January 15-17, 2024, the management stated that maximum efforts were being made to ensure utilization of existing inventory and avoidance of un-necessary procurement. Out of total inventory, 30% of spares were useable items, 26% were mandatory stores. Appropriate disposal of remaining 44% stock would be made in due course of time. The reply was not tenable as maintaining huge stock of slow-moving items resulted in blockage of funds.

The DAC directed the management to share the revised plan for utilization of store items with Audit. No further progress was reported till finalization of the report.

Audit recommends to provide the age-wise detail of the material held in stores and take measures to normalize the situation by the early disposal of unwanted material.

[DP No. 3071]

2.5.4.19 *Deficient security control resulted in theft of equipment - Rs 33.185 million*

According to Clause 4.3.5 of Store Manual of SNGPL, every Store In-charge will ensure that the material stacked in the pacing / cartons / crates / pallets is checked at regular intervals and in re-stacked at least once a year, so as to eliminate the chances of any material theft or misappropriation going unnoticed for a long period of time. The Store In-charge will maintain record of such activity and submit completion report to GM (Stores).

During audit of SNGPL for the FY 2023-24 it was observed that transformers, cables, and dry batteries etc., amounting to Rs 2.000 million were stolen in five CP stations of Sahiwal region. Despite lodging FIRs, the department failed to initiate any inquiry to probe the matter, raising questions about accountability and internal controls. Further, the stock-taking report revealed that Anode Kits of Rs 31.185 million were found not useable due to theft of cable. Furthermore, 8,847 meters cable was also found short. This resulted in loss of Rs 33.185 million

Audit is of the view that lack of oversight and follow-up was alarming, as it may indicate a broader issue with security and asset management within SNGPL.

The matter was reported to the management during October, 2024. In DAC meeting held on January 15-17, 2024, the management stated that a preliminary investigation was carried out at regional level Sahiwal before submission of the application for lodging of FIR of theft of CP stations. Further the matter of theft of Anode Kits was under investigation with FIA. Audit contended that management's response that the theft/damage of the Anode Kit was also linked with theft at Manga store was not tenable because the matter of the Anode Kits was raised in January 2024 during material inspection at various stores. Further, missing cables were also reported by the Corrosion Department to the GM Store vide memo dated November 30, 2022, but no action was taken by the management.

The DAC directed the management to share the internal inquiry report with Audit and pursue the matter with Police for recovery of loss. DAC further directed to re-examine the Anode Kits case and submit detailed reply besides pursuance of case with FIA. No further progress was reported till finalization of the report.

Audit recommends to conduct a thorough investigation of theft of equipment.

[DP Nos. 3067 & 3080]

2.5.4.20 Delay in procurement resulted in cost escalation – Rs 141.064 million

According to Rule 4 of PPRA 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. Further, according to Rule 38-B of PPRA Rules 2004, the procuring agency shall consider single bid in goods, works and services if it meets the evaluation criteria, ensures compliance of specifications and other terms & conditions expressed in advertisement or bid solicitation documents and is not in conflict with any provision of the Ordinance.

During audit of SNGPL for the FY 2023-24 it was observed that in 2022, management initiated procurement of 44 double-cabin 4x4 pickups, floated

tenders three times. In the first two attempts, no firm qualified technically. In the third tender, M/s Gandhara Industries and M/s Toyota Motors were declared technically responsive. Financial bids revealed M/s Gandhara Industries as the lowest bidder at Rs 8.815 million per vehicle, inclusive of taxes. However, the tenders were canceled, citing bid expiration. This justification was flawed, as only M/s Toyota's (the second-lowest bidder) bid had expired, while M/s Gandhara Industries' bid was still valid, as confirmed by the GM Procurement's memo dated March 01, 2023, which recommended awarding the purchase order to M/s Gandhara Industries. The tenders were re-floated in July, 2023, with M/s Toyota quoting Rs 12.021 million per vehicle. SNGPL ultimately procured 44 vehicles at a total cost of Rs 528.945 million in February and May, 2024. The unwarranted tender cancellation and procurement delay led to a cost escalation of Rs 141.064 million.

Audit is of the view that weak procurement management and undue cancellation of tender resulted in uneconomical procurement and extra cost of Rs 141.064 million.

The matter was reported to the management in November, 2024. In DAC meeting held on January 15 to 17 2024, the management stated that financial evaluation was received on February 17, 2023. The bid of lowest evaluated bidder was valid till February 26, 2023. Enhancement of the short amount was received from the indenter on March 1, 2023. In the meantime, both the technically responsive bids had expired. Lowest priced bidder vide letter dated February 24, 2023 refused to extend the validity of their bid. The management's response was not tenable because financial bids were opened on January 26, 2023 and management had one month to decide the case.

The DAC directed the management to conduct fact finding inquiry and fix the responsibility on the person(s) at fault within two months. No further progress was reported till finalization of the report.

Audit recommends to finalize the inquiry proceeding besides fixing responsibility on the persons at fault.

[DP No. 3063]

2.5.4.21 Loss due to imprudent decision of participation as JV partner in UCH compression project - Rs 135 million

According to Rule 5(5)(a) of Public Sector (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.”

During audit of SNGPL for the FY 2023-24 it was observed that SNGPL, in partnership with PDIL, participated in OGDCL’s tender for installing gas turbine compressors as an EPC contractor. An MOU between SNGPL and PDIL was signed in February, 2022 without Board of Directors (BOD) approval. PDIL, as the lead partner, provided a bid bond of Rs 270 million to OGDCL, with SNGPL contributing Rs 135 million to PDIL as its share. In January 2023, the project was awarded to the PDIL-led consortium. A 10% performance guarantee was required to proceed. The then MD sought approval from the Board's Finance and Procurement Committee (F&PC) to issue the performance bond and initiate procurement. However, the F&PC raised concerns about delays in opening Letter of Credits and the significant risk of issuing a Rs 135 million bid bond against a nearly Rs 2.000 Billion performance bond exposure. Due to the Board's reservations, the project could not be materialized, consequently, PDIL failed to provide the performance guarantee. As a result, OGDCL forfeited Rs 270.000 million bid bond and PDIL encashed SNGPL’s Rs 135 million share. The decision by the MD, made without BOD approval, resulted in loss of Rs 135 million to SNGPL.

Audit is of the view that poor administrative control resulted in loss of Rs 135.000 million.

The matter was reported to the management in November, 2024. In DAC meeting held on January 15-17, 2024, the management stated that ex-MD approved the execution of a contract with PDIL without the approval of the BoD. An MOU was signed between PDIL and SNGPL prior to the submission of a bid to OGDCL in February, 2022. Consequently, a bid bond of Rs 135.000 million was submitted to PDIL. Later on, the Board called an emergent meeting, revoked the power of attorney of the then MD and finally decided to terminate his services on June 24, 2024. Meanwhile, PDIL wrongfully encashed the company’s bank guarantee of Rs 135.000 million before the encashment of

PDIL's bid bond by OGDCL. Efforts were made to stop the encashment, but the desired results did not materialize. Presently, the matter is sub-judice.

The DAC directed the management to submit revised reply to Audit and pursue the case in the court of law vigorously. No further progress was reported till finalization of the report.

Audit recommends to fix the responsibility against the persons involved besides implementing the DAC directions.

[DP No. 3196]

2.5.4.22 Loss due to supply of defective material – Rs 16.307 million

According to Clause 55 of instruction to the bidder of the contract, the supplier is required to deliver the items as per delivery schedule from the receipt of purchase order or from the receipt of operative letter of credit. Furthermore, as per general terms to the contract, if the materials, as given in the order have not been dispatched / delivered on time and as per stipulations in the contract, SNGPL shall be entitled to recover 1% or 0.5% as the case may be of the total value of the delayed part of the material for each week of delay, by way of late delivery charges and not by way of penalty subject to a maximum of 10% of the total value of the delayed part of the material.”

During audit of SNGPL for the FY 2023-24, it was observed that management awarded 03-purchase order for import of store items. The goods valuing Rs 11.274 million supplied by the firms were rejected during inspection / installation but the suppliers did not replace the defective material till the close of audit. Further, SNGPL issued 03 purchase orders for import of Covering Orifice Plates, Covering Turbine Meters and Covering Orifice Meter Run. The entire amount was paid by management despite short shipment of material valuing Rs 5.033 million. This resulted in loss of Rs 16.307 million due to receipt of defective material and without actual receipts of goods.

Audit is of the view that poor procurement management resulted in loss of Rs 16.307 million due to supply of defective material and non-delivery of material.

The matter was reported to the management in November, 2024. In DAC meeting held on January 15 to 17 2024, the management stated that purchase order No. T-2227/15 did not fall under the audit period 2023-24. In other cases,

matter was being pursued with the suppliers and they had committed / agreed to deliver the missing material and replace the defective material. The issue of Master Link Software had been resolved. The reply was not tenable as neither the defective material was replaced nor the missing material was delivered by the suppliers.

The DAC directed the management to recover an amount of US\$ 36,980 from the person responsible for non-replacement of defective material in case of PO No. T-2227/15 and expedite the replacement / supply of material in other cases. No further progress was reported till finalization of the report.

Audit recommends to recover the amount from the persons responsible for non-replacement of defective material besides expediting the replacement of material from the vendor.

[DP Nos. 3066, 3070]

2.5.4.23 Non-recovery of LD charges through encashment of PWBG – Rs 19.302 million

According to Clause 4(a) of Appendix-A of General Terms of tender inquiry, the contractor will include a Clause on late delivery charges. This inter alia will state that if the material has not been shipped as per stipulated in the contract, except on account of Force- Majeure, within the delivery period given in the contract, SNGPL shall be entitled to recover 1% of the total value of the delayed part of the material for each week of delay by way of late payment charge subject to maximum of 10% of the total value of the delayed part of the material.

During audit of SNGPL for the FY 2023-24 it was observed that the management awarded 03 purchase orders for procurement of Odorant Oil and Online Gas Chromatograph. In one case the firm supplied the Odorant Oil late with a delay period of 105 days but management failed to recover the LD charges by encashing the performance work bank guarantee (PWBG) and in other two cases, the firm failed to supply the local component of purchase orders. The management of SNGPL failed to take timely action for forfeiture of PWBG of defaulting firms. The cases for encashment of bank guarantees were sent to the banks but subsequently withdrawn. After withdrawal of encashment request by SNGPL, the suppliers served the notice for arbitration and got stay orders

against encashment of PWBG. The delayed action on the part of management resulted in non-encashment of PWBG amounting to Rs 19.302 million.

Audit is of the view that due to weak procurement management, the LD charges were not recovered through timely encashment of PWBG.

The matter was reported to the management in November 2024. In DAC meeting held on January 15-17, 2024, the management stated that the LD claim was lodged and cases for forfeiture of PWBG were initiated. Being aggrieved, the suppliers invoked Arbitration Clause, and currently the cases were under court proceeding. The next date of hearing was fixed on January 7, 2025. The reply was not tenable as the management failed to encash PWBG timely which resulted in litigation.

The DAC directed the management to pursue the court cases vigorously. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility on the person(s) responsible for non-encashment of PWBG besides pursuance of court cases vigorously.

[DP Nos. 3064 & 3068]

2.5.4.24 Lack of reconciliation of inventory of replaced old meters and scrapped items leading towards misappropriation

According to Para 11.7 of Stores Manual, “the disposal of scrapped material shall be processed in line with PPRA Rules, and guidelines issued from time to time by PPRA. Further, according to Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal controls, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety, objectivity, integrity, and honesty and relationship with the stakeholders.

During audit of SNGPL for the FY 2023-24, it was observed that old and replaced meters reconciliation process was not being performed, leading to potential inaccuracies and losses. The absence of reconciliation hindered the accurate tracking of meters sent for repair to the Sundar Lab & Kot Lakhpat or those declared scrap. Further, Stores department of SNGPL issues various critical items, including plug valves, Gas regulators, Gas service valves, elbows, electronic volume correctors and batteries etc. However, upon replacement, the

scrap items generated from these processes were not adequately accounted for, as there was no established mechanism for reconciling these scrap items. In instant case 23 batteries were procured during the year while only 8 batteries were found in the scarp list of stores with zero balance of new batteries. In another, illustrative case, AGLR (Domestic) department received different items from store but scrap of these items was not reconciled with issued items. Moreover, mis-appropriation of scrap material amounting to Rs 28.762 million was done by the Rehabilitation Section, Faisalabad and fact finding inquiry had also been initiated by HR department.

Audit is of the view that due to weak internal controls, replaced meters including sticky and tampered ones, were not being properly accounted for / reconciled, making it difficult to track their disposal or repair.

The matter was reported to the management during October, 2024. In DAC meeting held on January 15-17, 2024, the management stated that SNGPL had an approved procedure in practice regarding scrapping of replaced gas meters to track their disposal or repair and the same was followed in letter and spirit. A fact-finding inquiry had been initiated regarding misappropriation of scrap material at Rehabilitation Section Faisalabad.

The DAC directed the management to get the stated stance verified from Audit regarding scrap material including replaced meter in Peshawar and Lahore regions and complete the inquiry proceedings within two months. No further progress was reported till finalization of the report.

Audit recommends to implement the DAC decision and devise a reconciliation mechanism to ensure accurate tracking of replaced meters and scrap items.

[DP Nos. 3084 & 3210]

Project Management

2.5.4.25 Over-estimation in order to avail excessive government funds – Rs 1,023.567 million

According to DG (Gas) notification dated June 2, 2005, criteria approved by Cabinet Committee on Energy (CCE) in 1992, was subsequently revised by the ECC of the Cabinet vide decision dated July 15, 2008 for supply of gas to new areas / towns. The portion of funds equal to the requirement over the criteria

specified for undertaking the schemes shall be provided by Federal Government whereas cost within criteria shall be borne by company from its own resources

During audit of SNGPL for the FY 2023-24, it was observed that the management was in the practice of preparing exorbitant cost estimates of gas schemes in order to secure excessive government funds. Audit identified 89 jobs which were completed at a cost of only Rs 901.720 million against the estimate of Rs 1,925.287 million (46.84% of the estimates). This showed that jobs were over-estimated to the tune of Rs 1,023.567 million to obtain excessive funds from government.

Audit is of the view that due to weak financial management, the over-estimation not only caused withdrawal of extra funds from the GoP but also blocked the company's funds for allocation to other jobs.

The matter was reported to the management during August to October, 2024. The management in its replies dated December 23, 2024, stated that company used to estimate construction cost of distribution pipelines on the basis of MS based material however due to usage of Polyethylene (PE) pipes, savings were achieved due to lower material costs.

The DAC in its meeting held on January 15-17, 2024, directed the management to provide job wise status of completed projects and surrender the saving to the government within one month. No further progress was reported till finalization of the report.

Audit recommends to expedite the process regarding refund of savings and report to Audit

[DP Nos. 2998 & 3090]

2.5.4.26 Delayed completion of jobs due to non-obtaining of NOC - Rs 15,745.983 million

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 the approved cost. Further, according to work orders issued to contractors, jobs are required to be completed within three months of issuance of pipe and jointing material.

During audit of SNGPL for the FY 2023-24, it was observed that management failed to complete 425 jobs having estimated cost of Rs 14,862.899 million despite lapse of period ranging from 40 days to 3,004 days. Similarly, the management completed 75 jobs having estimated cost of Rs 883.084 million with a delay ranging from 50 days to 2,374 days. This resulted in non / delayed completion of jobs having estimated cost of Rs 15,745.983 million.

Audit is of the view that weak project management resulted in non-completion of jobs within stipulated time period.

The matter was reported to the management during August to October, 2024. The management in its replies dated December 23, 2024, stated that delay in completion of work involved a number of factors like non-receipt of NOC's, non-availability of pipe and its allied material, non-availability of TBS material for commissioning of network due to political rivalry / disputes. Most of the highlighted cases pertained to last three years and these jobs remained suspended due to ban imposed by the GoP.

The DAC in its meeting held on January 15-17, 2024, directed the management to expedite the completion of jobs and submit job-wise justification of non-completion to Audit. No further progress was reported till finalization of the report.

Audit recommends to justify the non and delayed completion of jobs within stipulated time and ensure expeditious completion of jobs.

[DP Nos. 2993, 2995, 3005, 3091, 3200, 3201]

2.5.4.27 Non-refund of saving to consumers in cost sharing jobs - Rs 237.712 million

According to Para 9.2.2 of Accounting Manual of SNGPL, the duties and responsibilities of Area Accountant include arranging recovery / refund from / to consumers after completion of cost sharing jobs. Further, OGRA granted SNGPL a license No. NG-002/2003, on September 03, 2003 to undertake the regulated activities i.e., transmission of natural gas and distribution and sale of natural gas. As per condition 5.2 of the License, it is to be ensured the grant of 17.5% return on the value of its average net operating fixed assets for each financial year.

During audit of SNGPL for the FY 2023-24, it was observed that the management in 34 cases out of which 03 jobs pertaining to CDA, did not refund savings to consumers in cost-sharing jobs. The estimated cost of jobs amounting to Rs 403.213 million was received from consumers. These jobs were completed with actual expenditure of Rs 165.501 million with savings of Rs 237.712 million which was not refunded to the consumers.

Audit is of the view that due to weak financial controls, savings were not refunded to consumers.

The matter was reported to the management during August to October, 2024. The management in its replies dated December 23, 2024, stated that one project consisting of 8 jobs had not yet been completed, owing to which savings against the same could not be established till completion of the projects. Twenty-six projects had been commissioned and savings would be established and refunded in due course of time. Expenditure against 1 project was overrun which would be recovered before commissioning of jobs. The management further stated that in respect of CDA jobs, saving would be refunded after completion and commissioning of all three jobs.

The DAC in its meeting held on January 15-17, 2024, directed the management to expedite the process regarding refund of savings and report to audit within three months. Regarding the CDA jobs, DAC directed the management to complete the projects within one month and surrender the savings to CDA. No further progress was reported till finalization of the report.

Audit recommends taking remedial action for refund of savings in cost-sharing jobs.

[DP No. 3000]

2.5.4.28 Non-recovery of damages from third parties – Rs 18.750 million

According to Section 462(B) of Pakistan penal code (Act XLV of 1860), (1) any person who wilfully does tampering or attempt to do tampering or abets in tampering with a facility, installation or main pipeline for transmission or transportation, as the case may be, of petroleum is said to commit tampering with petroleum pipelines (2) any person who commit or abets in tampering with petroleum pipelines for the purpose of (a) theft of petroleum; or (b) disrupts supply of petroleum shall be punished with rigorous imprisonment which may

extend to fourteen years but shall not be less than seven years and with fine which may extend to ten million rupees, Further, under Section 462 (F) of ibid, any person who damage or destruct any transmission or transportation lines by any act of subversion by explosive material or in any other way so as to disrupt the supply of petroleum shall be punished with rigorous imprisonment which may extend to fourteen years but shall not be less than seven years and with fine which shall not be less than one million rupees.

During audit of SNGPL for the FY 2023-24 it was observed that SNGPL's high pressure gas transmission pipelines of 16" dia and 10" dia were ruptured by hit of dozers of NHA, M/s ZKB (contractor of NHA) and Dozer of Park Town Housing Society. The rupture of gas transmission pipelines resulted in loss of Rs 18.750 million to SNGPL on account of leakage of gas, suspension of gas supply and heavy expenditure on repair of rupture pipelines. The management lodged FIRs against NHA and Housing society but failed to recover the loss from responsible.

Audit is of the view that poor surveillance resulted in damage of transmission pipelines and loss to company amounting Rs 18.750 million.

The matter was reported to the management in October, 2024. The management in its reply dated December 23, 2024, stated that suits for recovery had been filed against NHA, M/s ZKB and against Park Town Housing Society and matter was sub-judice in the court of Civil Judge Islamabad.

The DAC in its meeting held on January 15 to 17 2024, directed the management to pursue the court case vigorously. DAC further directed to provide the status of insurance claims lodged. No further progress was reported till finalization of the report.

Audit recommends taking appropriate action for early recovery of loss from responsible.

[DP No. 2999]

2.5.4.29 Loss due to ill planning in uplifting and rerouting of laid pipeline - Rs 12.133 million

According to Clause 3.1.4 of the Project Manual, "at the start of each transmission line Lands Department prepares a list of crop wise compensation rates. This list is approved by LAC and sent to respective camps for estimation

of crops / damages compensation. The representative of Lands, Compliance & Construction visit the site, according to the drawings and route provided by the P&D Department, for verification and preparation of estimated damages and prepare compensation sheets according to the prevailing rates.”

During audit of SNGPL for FY 2023-24, it was observed that management planned and laid 210.225 KM transmission pipeline segment from Bannu West Well-1 to Daud Khel and accordingly crops / damages compensation were paid to the affected land owners. Later on, P&D department proposed re-routing of ROW of 12 km. As land owner cultivated the portion of right of way for agricultural / crop purpose and demanded crop compensation. The SGM (Projects) granted approval for payment of Rs 12.133 million against crop compensation. This resulted in two-time payment to affected land owners amounting to Rs 12.133 million.

Audit is of the view that weak planning and project management resulted in excess payment in mode of ROW and crop compensation of Rs 12.133 million.

The matter was reported to the management in November, 2024. The management in its reply dated December 23, 2024, stated that as per proposed plan, 1200-meter-wide crossing of 18” dia pipeline through River Indus was designed through Horizontal Directional Drilling (HDD) method but could not be done due to inconsistent and unpredictable underground geological strata beneath River Indus. Resultantly, SNGPL crossed River Indus by hanging the pipeline with Jinnah Barrage and Jinnah Hydropower Plant. However, the landowners had already levelled / graded land and were reluctant to allow uplifting without payment of compensation. The company had no other option except to uplift the laid pipeline after compensation to the affected landowners.

The DAC in its meeting held on January 15-17, 2024, directed the management to submit detailed revised plan to Audit. No further progress was reported till finalization of the report.

Audit recommends justification besides fixing responsibility for ill planning.

[DP No. 3194]

HR / Employee Related Irregularities

2.5.4.30 Non-finalization of disciplinary proceedings and fact-finding inquiries against accused employees

According to Para 110.3 of the SNGPL HR Manual, company encourages all disciplinary issues to be handle as soon as they come in to notice. Where management undertakes disciplinary action, its intention is to ensure that breaches of the Policy in case of under-performance are handled fairly and uniformly and without unnecessary escalation.

During audit of SNGPL for FY 2023-24, it was observed that management failed to finalize disciplinary proceedings against employees in 166 cases. This inaction undermined the company's commitment to fair and uniform handling of disciplinary issues, leading to uneven application of policies, lack of accountability, decreased employee morale and increased risk of non-compliance.

Audit is of the view that due to ineffective management disciplinary cases against employees were not finalized.

The matter was reported to the management during November, 2024. In DAC Meeting held on January 15-17, 2025 the management stated that 117 inquiries were in process, 4 inquiries were completed but implementation was pending due to stay orders from the Court of Law and 45 inquiries were closed after due process.

The DAC in its meeting held on January 15-17, 2025 directed the management to get the completed inquiries verified from Audit and expedite the process of remaining inquiries. DAC further directed the management to pursue the court cases vigorously. No further progress was reported till finalization of the report.

Audit recommends to expedite the inquiry proceedings and pursue the court cases.

[DP No. 3228]

2.5.4.31 Non-recovery from ex-employees – 198.972 million

According to Rule 5(5) of Corporate Governance Rules, 2013, the Board shall establish a system of sound internal controls, which shall be effectively

implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety, objectivity, integrity, honesty and relationship with the stakeholders.

During audit of SNGPL for FY 2023-24, it was observed that management did not recover an amount of Rs 194.022 million from six ex-employees involved in cash embezzlement, stealing of industrial meters and scrap items. Further, the management failed to recover company's assets valuing Rs 4.950 million from ex-Managing Director who was terminated from employment. This resulted in non-recovery from ex-employees amounting Rs 198.972 million.

Audit is of the view that weak internal control resulted in non-recovery of Rs 198.972 million from ex-employees.

The matter was reported to the management during November, 2024. In DAC Meeting held on January 15-17, 2025 the management stated that the case of final settlement of Ex-MD was pending in the court of law. The management further stated that inquiry committee established cash embezzlement of Rs 165.260 million and reported the matter to FIA. The case was currently sub-judice and the next date of hearing was February 17, 2025. Moreover, matter regarding stolen meters was also sub-judice.

The DAC in its meeting held on January 15-17, 2025 directed the management to pursue the court cases vigorously. No further progress was reported till finalization of the report.

Audit recommends to pursue the court cases vigorously for early recovery.

[DP Nos. 3229, 3230 & 3234]

HSE and Quality Assurance

2.5.4.32 Non-compliance of safety protocols posing risks to employees and public safety

According to Para 4.1.7 of HSE Manual of SNGPL, defined a procedure for identifying OH&S Hazards and risks. The HSE Focal point identifies the occupational health & safety hazards, assesses the risks and implements the necessary control measures. Further, according to Para 6 of Quality Assurance Manual of SNGPL, all activities shall be performed in

accordance with applicable standards and SOPs to ensure that any abnormality or discrepancy should not be occurred. However, in case, any abnormality or discrepancy is observed during inspection, it shall be documented as per given formats in Appendices and same shall be brought into the notice of the concerned EICs, GMs, and General Manager (QA) by the QA In-charge for proper documentation and consequent rectification / remedial measures.

During audit of SNGPL for the FY 2023-24, it was observed that:

- i) GM, HSE provided only 7,022 items of Personal Protective Equipment (PPE) and 122 firefighting equipment for its employees against demand of 260,075 and 249 items respectively. This resulted in non-provision of requisite PPEs and FFEs;
- ii) The management failed to rectify 11,973 discrepancies highlighted by Quality Assurance department as required to rectify within two weeks;
- iii) The management failed to rectify 115 electrical audit findings pointed out by third-party audit;
- iv) Fact-finding inquiry of fire incident at upstream of Regulatory Station Siham in Rawalpindi revealed that Executive Engineer (HSE) was alarmingly unaware taking explosivity readings on an hourly basis using a LEL meter and the lack of inspection of firefighting equipment, before commencing work however, the management did not take any action against the responsible person; and
- v) The management conducted three gas odorization surveys at SMS, TBS, and DRS levels without utilizing an odor meter. The absence of an odor meter, a crucial tool for measuring odorant levels, could lead to inconsistent and potentially inaccurate assessments of gas odorization.

Audit is of the view that due to poor operational and safety management, HSE department failed to perform its function.

The matter was reported to the management during September, 2024. In DAC meeting held on January 15-17, 2025 the management stated that procurement of personal protective equipment and firefighting equipment was in process. Rectification of discrepancies pointed out by the Quality Assurance department was the responsibility of execution departments. A joint inspection in

Lahore Region identified 41 critical anomalies of electric equipment to be rectified. Fact-finding inquiry of fire incident had been finalized. Further, odorization surveys were being carried out using natural gas odour sniff tester equipment. The replies of the management were not tenable as no documentary evidence in support of replies was produced to Audit.

The DAC in its meeting held on January 15-17, 2025 directed the management to provide a comprehensive reply to audit within one week and verify the genuineness of demands raised by regions besides following up the corrective actions by execution department. DAC further directed to implement the recommendations of the fact-finding inquiry and ensure strict compliance with security and safety measures to prevent future lapses. No further progress was reported till finalization of the report.

Audit recommends ensuring strict compliance with security and safety measures besides corrective measures for discrepancies highlighted by the QA and HSE department.

[DP Nos. 3093, 3205, 3207, 3216, 3217]

2.5.4.33 *Non-compliance with LPG storage standards leading to high safety risk*

According to technical standards of OGRA related to LPG Industry as per Appendix-I of LPG Rules, 2001, Para 1.1.3 NFPA 58, 1998 Edition: standard for the storage and handling of LPG provides that cylinders with a maximum water capacity of 2.5 lb (1.1kg) [nominal 1lb (0.45Kg)] LP-Gas capacity used with completely self-contained hand torches and similar applications shall be permitted to be stored or displayed in a building frequented by the public. The quantity of LPG gas shall not exceed 200lb (91kg).

During audit of SNGPL for the FY 2023-24, it was observed that the Lahore Region of SNGPL stored more than 1,500 LPG cylinders daily, exceeding the recommended limit of 200lb (91kg) as per NFPA 58, 1998 Edition standards for the storage and handling of LPG. This was a significant safety risk, particularly since the cylinders were stored in a building frequented by the public. The HSE department's failure to identify and address this risk was concerning, as it may lead to accidents, injuries, or even fatalities. The storage of LPG cylinders in excess of the recommended quantity violated OGRA's technical standards for the LPG industry.

Audit is of the view that non-adherence to the LPG Rules, 2001 and standards for the storage & handling of LPG may cause damages to the property and loss of human lives.

The matter was reported to the management during October, 2024. In DAC meeting held on January 15-17, 2025, the management stated that para of NFPA 58, 1998 edition, dealt with self-contained LPG torches rather than storage of LPG cylinders. Moreover, OGRA had also notified the Safety and Operational Requirement for Authorized LPG dealer's / distributor's premises that were being followed by SNGPL. The reply was not tenable, as the standard clearly outlines guidelines for the storage and handling of LPG including the quantity limits for public buildings.

The DAC in its meeting held on January 15-17, 2025 directed the management to implement the safety measures and take up the matter with OGRA for inspection and determination of permissible quantity. No further progress was reported till finalization of the report.

Audit recommends to implement the safety measures besides taking up the matter with OGRA for inspection and determination of permissible quantity.

[DP No. 3092]

2.5.4.34 Compromising the pipeline integrity due to non-functioning CP stations

According to Para 1.2 of Corrosion Manual of SNGPL, the design, installation and commissioning of cathodic protection system is to develop the CP system under NACE international standards to protect Buried MS structure by providing cathodic protection to Distribution and Transmission network, so that external corrosion and its adverse effects on the pipe lines or foreign structures are mitigated.

During audit of SNGPL for the FY 2023-24, it was observed that the Cathodic Protection (CP) system was not functioning due to 97 faulty CP stations in five regional offices.

Audit is of the view that due to laxity on the part of management, cathodic protection was not functioning on 97 CP stations which was a high risk of corrosion-related failures and potential safety hazards.

The matter was reported to the management during October, 2024. In the DAC meeting held on January 15-17, 2025 the management stated that needful repair / maintenance, against 43 No. CP stations had already been arranged, whereas necessary efforts against remaining 53 No. CP stations were in progress. The reply was not tenable, management claimed that needful repair and maintenance was arranged for 43 CP stations. However, the evidence provided only supported the rectification of 16 CP stations. Moreover, the lack of functioning CP stations still posed significant safety hazards.

The DAC in its meeting held on January 15-17, 2025 directed the management to get the repaired CP stations verified from Audit and expedite the repair of remaining CP Stations. No further progress was reported till finalization of the report.

Audit recommends taking immediate corrective action to attain optimal cathodic protection and to avoid potential safety hazards.

[DP No. 3209]

Regulatory Compliance

2.5.4.35 Overbooking of tariff adjustment without final decision of OGRA - Rs 29,036.501 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 2023-24, it was observed that in the audited Annual Accounts for the FY 2022-23, the company recognized revenue of Rs 377,513.730 million on account of Tariff adjustment receivable from the Federal Government against indigenous gas & RLNG. Out of this amount, Rs 29,036.501 million were booked on account of Gas internally consumed for transportation, take or pay adjustment of previous years, finance cost on encashment of security, finance cost on short-term borrowing, LPS to gas creditors and operating costs which were either deferred or 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. The SNGPL recognized tariff adjustment on such deferment / disallowance on the plea that SNGPL was in process of filing a review appeal against the FRR decision of OGRA and was confident of favourable outcome. This resulted in an overstatement of revenue on account of differential margin by Rs 29,036.501 million.

Audit is of the view that weak financial controls resulted in overstatement of differential margin amounting to Rs 29,036.501 million.

The matter was reported to the management in November, 2024. The management in its reply dated November 29, 2024 stated that company had filed motion for review against FRR for FY 2022-23 with OGRA. The decision of the OGRA was awaited and any future course of action would be decided in the light of the decision of OGRA. The reply was not tenable as recognition of tariff adjustment without final decision of OGRA resulted in overstatement of Financial Statements.

The DAC in its meeting held on January 15-17, 2024, directed the management get the stated stance verified from Audit and pursue the matter with OGRA for final decision and take action accordingly. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter with OGRA for finalization of decision.

[DP No. 3198]

2.5.4.36 Non-submission of assets and beneficially held investment and properties of BoD members and Senior Management of Company

According to Section 30(1) of the State-Owned Enterprises (Governance and Operations) Act 2023, “the directors and senior management officers of a state-owned enterprise shall annually submit their assets and beneficially held investments and properties to the Board. Any changes thereto shall be reported to the Board within two weeks of such change, subject to reasonable restrictions on making this information public, as may be imposed by the Board in its conflict management policy”.

During audit of SNGPL for FY 2023-24, it was observed that the members of the BoD and senior management did not submit their assets and beneficially held investments and properties to the Board. The matter was discussed in the 623rd and 627th meetings of the BoD held on May 10, 2024 and September 10, 2024 and BoD resolved that all Board Members and senior management should submit an undertaking every year in October, or by any extended date as allowed by the FBR, confirming that they had filed their income tax return with the FBR for the preceding year. The decision made by the Board was not in line with the provisions of SOE Act, as the income tax return filed with the FBR could not substitute the requirement of submitting an asset declaration to the company. Further, BoD members and senior management were required to intimate any change in their assets to the Board within two weeks of such change. This resulted in non-compliance of SOE Act, 2023.

Audit is of the view that poor regulatory compliance resulted in non-implementation of SOE Act, 2023.

The matter was reported to the management in November, 2024. The management in its reply dated December 23, 2024, stated that matter regarding annual declaration of assets was again deliberated by the Board at its 629th meeting of the BoD held on November 20, 2024, wherein it was reiterated by the BoD that any such declaration would compromise the confidentiality of data pertaining to an individual. However, the Board advised to take up the matter with the Central Monitoring Unit (CMU) to review the policy in this regard. Accordingly, the matter was being taken up with the CMU.

The DAC in its meeting held on January 15 to 17, 2024, directed the management to comply with SOE Act, 2023 and report to Audit within three months. No further progress was reported till finalization of the report.

Audit recommends to comply with the provision of SOE Act, 2023.

[DP No. 3351]

Others

2.5.4.37 Non-construction of regional office building on company-owned land - Rs 69.816 million

According to Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal controls, which

shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety, objectivity, integrity, and honesty and relationship with the stakeholders.

During audit of SNGPL for the FY 2023-24, it was observed that Sahiwal region of SNGPL was not utilizing the company-owned land and paying unnecessary rental expenses. Despite owning two valuable pieces of land, one consisting of 52 marlas in Farid Town and another of one acre at Sahiwal Bypass Road, the region continued to pay rent for four hired buildings. This arrangement was in place since the region's establishment in 2012, resulting in substantial unnecessary expenditures of Rs 69.816 million.

Audit is of the view that due to poor planning, regional office building was not constructed on company-owned land resulting in unnecessary rental costs.

The matter was reported to the management during October, 2024. In DAC meeting held on January 15-17, 2025 the management of SNGPL stated that matter was taken up with OGRA. Authority observed that impact of cost of construction of regional office building was much higher than the rent paid by the company, therefore, Authority was of the view that the company might construct the regional office building from its profit, however, the amount incurred on the project would not be made part of the rate of return. The building could not be constructed due to non-permission by OGRA.

The DAC in its meeting held on January 15-17, 2025 directed the management to take up the matter with BoD for optimal utilization of land. No further progress was reported till finalization of the report.

Audit recommends taking up the matter with Board for effective utilization of land.

[DP No. 3082]

Paras from IS Audit Report on CC&B System of SNGPL and SSGC

2.5.4.38 Weak management practices in registering new consumers and complaints in CC&B system

As per Sr. No. 3 of Performance and Service Standards 2019 issued by OGRA, all complaints shall be recorded whether received by phone, letter,

electronically or in person. Complaints about gas smell, asphyxiation, fire, gas pipe breakage, explosion or building collapse, etc., shall be dealt with / to attend as quickly as possible but within one hour for uncontrolled escapes, and two hours for controlled escapes. All other complaints which are determined to be low risk shall be responded to within 24 hours. Further, according to Clause 5.2.2 of Customer Service Department Manual, the feedback of all received complaints after rectification shall be transferred to CC&B system.

During IS audit of CC&B System of SNGPL and SSGC, it was observed that at the time of registering new consumers in CC&B system, complete particulars i.e. OGRA license number, phone number, CNIC, preferred contact etc., were not entered in CC&B system. Similar was the case with complaint entries where vital information like phone number, complaint type, etc. was found missing in many complaints. Further, complaints were wrongly prioritized as critical or normal e.g. blast, fire case, building collapse, gas leakages etc. were recorded as normal complaints while address correction, bill not received, gas stop etc. were recorded as critical complaints. Moreover, 250 complaints were resolved with a delay of 04 days to 200 days, which showed non-professional attitude of the management. Complaints were also closed without getting/putting feedback of consumers in CC&B application.

Audit is of the view that weak management practices were responsible for the issues highlighted above.

The matter was reported to Ministry of Energy (Petroleum Division) on September 4, 2023. In DAC meetings held in November, 2023, SSGC stated that a mechanism had already been implemented which made sure that no field was left blank in CC&B in future. SNGPL stated that the checks were already in place to ensure no mandatory fields were blank. As per SOP, while lodging complaints, entry of necessary information was mandatory like nature of complaint etc. All concerned had been advised strictly to follow the SOP when prioritizing the complaint to avoid any deviation from standard procedures in future. As suggested, feedback received from consumers shall be accurately punched into CC&B.

The DAC directed both managements to get the stated stance verified from Audit. DAC further directed SNGPL to introduce data collection /

correction system and share the work plan with Audit. No further progress was reported till finalization of report.

Audit recommends entering complete particulars in CC&B system, ensuring correct classification of complaints along with priority and entering feedback from complainants. Audit also suggests that a periodical report is generated on the data of complaints for the higher ups in the gas companies.

[Para 4.2.2 IS Audit Report on CC&B System of SNGPL and SSGC, Audit Year 2022-23]

2.5.4.39 Reliance on manual processes compromising the efficient use of CC&B application

According to Clause 4.3.2 of Process Analysis Report of SNGPL and as per SOP of IT CC&B of SSGC the meter reads and misc. data obtained through the hand-held units and books was to be uploaded through FTP files into CC&B. Further, as per Interface of CC&B application “New Registration”, when the turn of customer comes according to first come first served basis, survey of the site is conducted to determine if the connection is feasible or not in accordance with Clause 7 & 35 of Performance and Service Standards, 2019, introduced by OGRA. Furthermore, according to Clause 4.1.3 of Customer Service Department Manual of SNGPL, the record complaints received through personal visits of consumers shall be registered in CC&B system.

During IS audit of CC&B System of SSGC and SNGPL for the FY 2021-22, it was observed that some workflows were performed manually which compromised the efficient use of CC&B application. Firstly, the meter reading process was not fully automated, as Hand Held Units (HHU) were not directly synchronized with CC&B for automated meter reading. This led to manual entry/uploading of meter read files into CC&B after streamlining by the IT department. Secondly, the manipulation of the system-generated merit list for meter installations was noted as meters were installed without adhering to the turn/merit policy. This manipulation compromised data integrity, violated applicable rules, and reduced overall efficiency. Further, 126 manual complaints were not registered in complaint management system of CC&B and the process of issuance of bills in installments was done manually instead of through CC&B system. Moreover, gas bills relating to all consumers were printed and distributed manually instead of issuance of e-bill through the system which resulted in wasteful expenditure on printing/distribution of paper bills.

Audit is of the view that manual processes of meter reading, instalment of bills, and manipulation of system generated merit list could compromise the efficient use of CC&B and increase risk of errors.

The matter was reported to Ministry of Energy (Petroleum Division) on September 04, 2023. In DAC meetings held in November, 2023, SSGC and SNGPL stated that there was no provision in CC&B's current version to automate meter reading files (downloading / uploading activities) directly into CC&B system without the human intervention. SNGPL stated that the computerized merit list was generated by IT/MIS department depending on merit of each Region and the same was forwarded to the concerned Region for implementation. Bills were manually amended in case of installment as the relief was given to consumer for the time being to facilitate them for payment easily in parts. Further, there were very few complaints that could not be entered into the system due to insufficient information provided by the complainant. Moreover, in franchise areas awareness campaigns were launched and 86,307 consumers had opted for e-billing facility.

The DAC directed both the companies to get the stated stance verified from Audit and to improve the mechanism to check the accuracy, reduce the chances of errors and share the report with Audit after three months. DAC further directed SNGPL to implement the merit in letter and spirit and get the record verified on case-to-case basis. DAC also directed to enhance and improve efforts for e-billing. No further progress was reported till finalization of the report.

Audit recommends development of automated meter reading process / synchronization of HHU with CC&B, discontinuing the manual process of installments, manipulation of merit list and issuance of e-bills instead of printing.

[Para 4.2.5 IS Audit Report on CC&B System of SNGPL and SSGC, Audit Year 2022-23]

2.5.4.40 Issuance of provisional bills in violation of set standards

According to Clause 27 of Performance and Service Standards, 2019 introduced by OGRA, the Company shall issue first gas usage bill based on actual reading within 90 days of the commissioning of gas supply. Further, according to Clause 28, 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 IS audit of CC&B System of SSGC and SNGPL for the FY 2021-22, it was observed that regional offices of gas companies continued to issue provisional monthly bills to the consumers beyond the permissible period of three months after new installation of meters. In some cases, the delay was as much as 168 months after the commissioning and installation of gas connections. Further, regional offices issued provisional billing beyond maximum limit of 03 months.

Audit is of the view that non-issuance of bills within 90 days and issuance of provisional bills over the years through CC&B is a clear violation of OGRA standards.

The matter was reported on September 4, 2023 to Ministry of Energy (Petroleum Division). In DAC meetings held in November, 2023 management of gas companies stated that the gas bills are issued after completion of all activities i.e. completion of service line, meter installation and generation / activation of gas sales agreement. Further, provisional gas bills were issued to its customers, if for any constraint / reasons the reading could not be obtained by the Meter Readers / Meter Reading Inspectors despite their all-out effort. Audit contended that there was no effective check applied to stop provisional billing after the completion of three months in the CC&B system.

The DAC directed the management to conduct fact-finding inquiry and submit report to Audit within three months and ensure the timely processing of the bills and implementation alert and report thereon and share the same with Audit. DAC further directed the management to place the matter before the Board for a decision on the issue of provisional billing and comply with the policy of OGRA. No further progress was reported till finalization of report.

Audit recommends strict compliance of instructions issued by OGRA regarding provisional bills.

[Para 4.4.2 IS Audit Report on CC&B System of SNGPL and SSGC, Audit Year 2022-23]

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%.

Main activity of the company is transmission and distribution of natural gas in the provinces of Sindh and Balochistan. The company is also engaged in certain activities related to the gas business including manufacturing and sale of gas meters, construction contracts for laying of pipelines and transportation of RLNG to SNGPL. SSGC is serving more than 3.113 million consumers in Sindh and Balochistan through pipeline network of 47,520 KMs. The company is facing multiple problems that include governance issues, operational inefficiency, weak contract and project management that have suppressed the profitability and business growth of the company over the period of time. The company had not been able to finalize its accounts for the FY 2023-24 due to non-resolution of issues with Oil and Gas Regulatory Authority (OGRA) leading to non-determination of its revenue requirements for the aforesaid financial year.

(B) Financial Performance

Audited accounts for the financial years 2023-24 were not finalized till finalization of this report. Working results of the company for the financial year 2022-23 as compared to the previous years are tabulated below:

(Rs in million)				
Head of Account	2022-23	2021-22	2020-21	2019-20
Sales (Net)	449,501	375,559	296,128	290,240
Other Income	25,262	17,630	19,463	15,769
Total Revenues	474,763	393,189	314,771	306,009
Cost of Gas	423,301	367,840	301,878	307,291
Expenses	52,299	36,760	11,757	19,987
Total Expenses	475,600	404,600	313,635	327,278
Total Profit or Loss	(837)	(11,411)	1,955	(21,269)

(Source: Annual Audited Accounts)

2.6.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 250,831.822 million were raised in this report during the current audit of SSGC. This includes recoverable amount of Rs 81,251.374 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	UFG Related Issues	157,048.342
B	Operation and Performance Related Issues	10,173.470
C	Non-Compliance of GoP Policy	20,227.000
D	Non-Compliance of OGRA	3,936.500
E	Weak Internal Controls	799.397
F	Receivables Management	56,043.322
G	Procurement Related Issues	2,300.816
H	HR / Employee Related Irregularities	-
I	Corporate Governance Related Issues	17.545
2	Others	285.430
	Total	250,831.822

2.6.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
1992-93	10	9	1	90
1994-95	2	1	1	50
2000-01	5	4	1	80
2002-03	8	7	1	88
2003-04	8	6	2	75
2006-07	13	10	3	77
2007-08	11	10	1	91
2010-11	27	25	7	93
2011-12	8	0	8	0
2012-13	2	0	2	0
2013-14	9	8	1	89
2014-15	3	0	3	0
2015-16	45	19	26	42

2016-17	39	6	33	15
2017-18	24	7	17	29
2018-19	14	0	14	0
2019-20	9	5	4	56
2021-22	2	0	2	0
Total	239	117	127	49

The overall compliance of PAC directives needs improvement. Special attention is required for the years where 'NIL' compliance was reported in above table.

2.6.4 Audit Paras

UFG Related Issues

2.6.4.1 UFG losses beyond OGRA's permissible limit – Rs 80,014 million

According to Section III of UFG study, OGRA approved Key Monitoring Indicators (KMIs) to streamline UFG reduction plan. These KMIs were set of quantifiable outcomes / results that Sui Companies were to use to compare their performance in terms of meeting their strategic and operational goals. The annual UFG allowance was linked to the achievement of these KMIs. Further, as per para 9.2.5 of DERR for FY 2017-18, it was mandatory for the gas Companies to submit an annual report regarding quantification of the components of UFG. Further, according to Clause 21.1 of the License of SSGC issued by OGRA, “the licensee shall take all possible steps to keep the UFG within acceptable limits. Authority for this purpose, in consultation with the licensee and the experts, shall fix target of UFG for each financial year. Authority may fix UFG target separately for each regulated activity.”

During Special Audit of SSGC for the FYs 2020-21 to 2022-23 and in FY 2023-24, it was observed that the Company sustained UFG losses beyond allowable limits of OGRA, resulting in financial losses as detailed below:

(Rs in million)

FY	UFG Target determined by OGRA %	UFG Volume (MMCF)	Actual UFG %	WACOG (Rs per MCF)	Total cost of UFG	Value of Disallowed UFG
	1	2	3	4	5 = 2 x 4	6 = [5/3*(3-1)]
2020-21	6.92%	55,557	15.31%	500.51	27,812	15,243
2021-22	6.97%	59,987	17.84%	641.11	38,458	23,430
2022-23	6.25%	56,024	18.06%	727.40	40,751	19,510
2023-24	6.30%	40,732	13.94%	977.96	39,834	21,831
Total						80,014

(Source: FRRs of SSGC for the year 2020-21 to 2021-22 and DERR 2022-23)

Audit is of the view that ineffective UFG reduction plan and non-achievement of KMIs resulted in huge UFG losses of Rs 80,014 million reducing the profitability of the Company and dividend of the shareholders including the Federal Government.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 26, 2024 stated that the company's UFG

had significantly reduced in volumetric terms, however, in terms of percentage reduction, UFG did not commensurate with the OGRA benchmark.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to effectively implement the KMIs and UFG reduction plan to bring UFG losses within permissible UFG benchmark. No further progress was reported till finalization of the report.

The DAC in its meeting held on 6 & 7 January, 2025, directed the management to enhance their efforts for bringing the UFG losses to the permissible limit.

Audit recommends to ensure effective implementation of UFG reduction plan and KMIs to bring UFG losses within permissible limit.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2019-20, 2020-21, 2021-22, 2022-23 & 2023-24 vide para numbers 2.6.4.5, 2.6.6.10, 2.6.6.2 & 2.6.4.2 having financial impact of Rs 12,091 million, Rs 39,549.84 million, Rs 22,254 million & Rs 12,982.70 million. Recurrence of same irregularity is a matter of serious concern.

[SAR/SSGC/4.1.5.1, DP Nos. 3421 & 3468]

2.6.4.2 Failure in detection of gas theft – Rs 53,928.203 million

According to Section III of UFG study and Key Monitoring Indicators (KMIs) approved by OGRA, Sui Companies were required to establish a special cell to analyse CC&B data to detect abnormal consumers' behaviour for identification of gas theft. Other important tasks to perform included re-inspection of all disconnected meters to prevent gas pilferage through reconnection by the disconnected consumers, improving the channels for theft complaints registration as online complaint registration system and resolution, reporting the number of FIR's registered against the number of cases detected and number of criminal and recovery suits filed.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that the management established Security Services and Counter Gas Theft Operation (SS&CGTO) Department and Customer Relation Department (CRD) for theft detection by industrial, commercial and domestic consumers respectively. According to company's own estimates there was a theft of 85,784 MMCF gas, whereas only 5,553 MMCF (only 6.47%) could be detected during

last three years. The remaining gas theft of 80,231 MMCF valuing Rs 49,983.913 million could not be detected by CR and SS&CGTO departments.

In FY 2023-24, it was further observed that SSGC suffered a loss due to theft claim of gas 285,097 MCF amounting to Rs 858.671 million involving 331 cases on account of gas pilferage by domestic, commercial and industrial customers. As per data, only 205 registered customers had acknowledged theft claim of gas 24,260 MCF amounting to Rs 81.444 million while 22 un-registered customers had also acknowledged theft claim of gas 26,032 MCF amounting to Rs 20.342 million. The SS&CGTO department could have utilized a part of its allocated budget showing the commitment of the Company in their efforts effectively for controlling theft of gas in the region. However, the performance across various years showed declining trend as compared to the year 2018-19 when the number of theft cases were 921 as detailed below:

Des- cription	2019-20		2020-21		2021-22		2022-23		2023-24	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Theft cases identified	709	94.62	315	166.91	822	466.34	307	178.34	331	858.571

(Source: Annual account and data provided by management)

According to data provided by the SSGC, connections of 33,404 domestic consumers involved in theft and un-authorized use of gas were disconnected. However requisite actions such as registering FIR, filing recovery suits and pursuance of court cases against 82,543 non-consumes could not be taken. A loss of 4,953 MMCF gas valuing Rs 3,085.719 million was sustained due to inaction by the management

Audit is of the view that weak surveillance and ineffective UFG control activities led to non-detection of theft of gas in time.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 26, 2024 stated that theft cases were pending for trial with Honourable courts / Ombudsman / OGRA. Audit contended that the reply submitted by the management was incomplete and irrelevant as the para was regarding identification of theft cases.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to make concrete efforts to detect theft cases to reduce UFG losses. No further progress was reported till finalization of the report.

The DAC in its meeting held on January 6 & 7, 2025 directed the management to pursue the recovery and pursue the cases vigorously in the court of law.

Audit recommends to justify non-detection of gas theft resulting in high UFG losses.

[SAR/SSGC/4.1.6.1, DP Nos. 3463 & 3472]

2.6.4.3 Delay in execution of rehabilitation schemes – Rs 1,087.640 million

According to Section III of UFG study and Key Monitoring indicators approved by OGRA, network rehabilitation was required to reduce leakages and gas losses through periodic and extensive maintenance of the Company's network.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that the management failed to timely complete 5 rehabilitation schemes valuing Rs 1,087.640 million. These schemes were initially planned during 2009-10, 2010-11 & 2020-21 but could not be completed within stipulated time either due to in-efficiency or contractors' default. In one case, the contractor did not complete the scheme despite several notices by the management. The management also approved the rehabilitation scheme at Siddique Colony, Larkana for laying of 7.071 KMs pipeline network on March 17, 2022 amounting to Rs 37.358 million but actual cost incurred on the job exceeded projected cost by Rs 7.143 million due to delay in the execution of the schemes. The job was executed in the year 2023 after lapse of nine months. Further, the rehabilitation work at Kandhkot city was not executed despite lapse of one year and nine months, where expected saving of annual UFG was Rs 189,425.800 million. The management failed to take action against the contractors and those responsible within the organization. The delay in completion of rehabilitation schemes also contributed to failure in reduction in UFG.

Audit is of the view that due to deficient implementation of KMIs and UFG reduction plan, the management failed to timely complete the rehabilitation schemes.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 26, stated that SSGC executed rehabilitation projects in smaller pockets. Rehabilitation schemes could not be completed due to delays in road-cutting permissions, non-performance by ditching contractors and execution of multiple schemes at same time.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to provide project wise details along with proper justification of delay in completion of rehabilitation schemes within a week. No further progress was reported till finalization of the report.

The DAC in its meeting held on January 06 & 07, 2025 observed that the time taken by the management in execution of the projects was excessive which reflected inefficient procurement process. DAC further directed the management to share the progress with Audit.

Audit recommends to justify the matter, and provide the status of action taken against contractors besides fixing responsibility on the person(s) at fault.

[SAR/SSGC/4.1.6.3, DP Nos. 3422 & 3423]

2.6.4.4 Failure in reduction of UFG losses despite unjustified expenditure on meter replacement – Rs 22,018.399 million

According to Section III of UFG study, SSGC was required to identify and replace defective meters and bring their ratio to an acceptable level of less than 5% of total connections.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that the management incurred expenditure on meter replacement with the purpose of reducing UFG losses. An analysis of meter replacement cost and impact on UFG for the period from the FYs 2013-14 to 2021-22 showed that despite incurrence of heavy expenditure UFG was not reduced. Audit further, observed that during these years, meters of 80% consumers (2.563 million out of 3.267 million) were replaced at a cost of Rs 19,496.000 million. However, the UFG increased from 13.82% in 2013-14 to 17.20% during 2021-22 as detailed below:

(Rs in million)

Sr. No.	FYs	Amount incurred on meter replacement	No. of meters replaced	UFG %
1	2013-14	1,147	170,451	13.82%
2	2014-15	1,428	-	13.62%
3	2015-16	2,396	310,342	13.73%
4	2016-17	2,016	213,244	13.29%
5	2017-18	2,396	306,443	17.11%
6	2018-19	2,985	483,813	18.28%
7	2019-20	2,045	308,856	17.25%
8	2020-21	2,613	413,536	15.31%
9	2021-22	2,470	356,699	17.84%
Total		19,496	2,563,384	

Audit also observed that the meters were replaced without any assessment of condition of the meters. In two regions (Hyderabad and Sukkur) almost 24% of the replaced meters could be used after minor repairs but these were not brought back into service.

Audit is of the view that defective planning resulted in an unjustified expenditure on the replacement of meters amounting to Rs 2,522.399 million.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 26, 2024 stated that Company's UFG had significantly reduced from FY 2018-19 (77 BCF) to 2022-23 (45 BCF). However, in terms of percentage reduction, UFG could not commensurate with the OGRA benchmark. Audit contended that the company did not give details of the impact of meter replacement on UFG losses.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to reduce the UFG losses. DAC further directed to provide comparative study in reduction of UFG due to meters replacement since 2013-14 till 2021-22 within six months. No further progress was reported till finalization of the report.

Audit recommends that the management needs to chalk out a comprehensive plan for reduction in UFG after thoroughly analysing the underlying causes. The expenses incurred on the replacement of meters and its impact on UFG losses may also be provided.

[SAR/SSGC/4.1.6.4]

2.6.4.5 Non-reconciliation of gas at Town Border Station (TBS) level

According to Section III of UFG study, reconciliation of check meters vs CMS readings on monthly basis of such segregated segmented areas. Reconciliation of gas at various levels is a must to identify the areas more prone to the losses.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that UFG Department failed to carry out the reconciliation of gas at TBS level. In the absence of such reconciliation, it was not possible to review and analyse the data of gas volume such as indigenous gas input from SMS, gas billed to consumers, free gas facility, gas blown off, sabotage, blasts, gas internally consumed (GIC) and UFG. Further, the management failed to control UFG even on those TBSs which had very small area of operations (ranging up to 22 km only). Audit identified twenty such TBS where the cumulative losses were Rs 987.117 million. An illustration of five TBS is provided in the following table:

(Rs in million)					
Sr. No.	TBS Name	UFG (MMCF)	UFG %	Total Zone Area (KM)	UFG losses
1	Korangi Creek	106	77	2	53.095
2	Abdullah Goth-II	55	64	8	27.314
3	Yousuf Goth, Landhi	100	75	15	49.854
4	Chashma Goth Korangi	19	32	16	9.560
5	Korangi 51-C	76	46	22	38.088

(Source: Data provided by SSGC during Audit)

Audit is of the view that by not conducting reconciliation of gas at the level of TBSs, the management could not identify the high-loss areas.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 26, 2024 stated that zone wise reconciliation was being made.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to share the zone wise reconciliation showing TBS / location-wise reconciliation in each zone with Audit. No further progress was reported till finalization of the report.

Audit recommends to conduct reconciliation of gas at every level to identify the areas with high UFG. The assistance from Petroleum Division

must also be sought in order to curb the tendency of gas pilferage in high-loss areas.

[SAR/SSGC/4.1.6.5]

2.6.4.6 Loose control over Sales Meter Stations prone to high UFG

According to Section III of UFG study, identification of UFG prone areas, segmentation of UFG prone areas and installation of check meters for reconciliation must be done for UFG reduction.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that like the TBSs, the management also failed to control UFG losses at those SMSs which were prone to high UFG losses. Management did not focus on these areas to enhance their efforts. Despite these SMSs giving huge loss to the Company, no concrete effort was found to address these areas. Detail of ten SMSs with high UFG is as under:

(UFG in MMCF)

Sr. No.	Description	2020-21	2021-22	2022-23	Total	UFG %
1	Quetta, Balochistan	11,297	10,401	11,813	33,511	64%
2	Habibullah Coastal Power	2,123	8,184	10,410	20,717	70%
3	Zargun, Balochistan	8,407	4,122	1,147	13,676	100%
4	Sukkur-I	596	600	553	1,749	72%
5	Jhatpat, Balochistan	552	568	555	1,675	82%
6	Sohbatpur, Balochistan	331	407	413	1,151	70%
7	Rakhshan, Balochistan	341	343	296	980	61%
8	Thari Mohabbat, Sindh	308	323	322	953	59%
9	Malir, Karachi	5,938	4,299	3,203	13,440	14%
10	Memon Goth, Karachi	214	197	195	606	55%
Total		23,955	24,948	25,509	74,412	

Audit is of the view that due to non-implementation of KMIs by the management, UFG losses could not be decreased and brought within allowable limits.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 26, 2024 stated that UFG in 94 SMS out of 125 SMS had been decreased.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to reconcile the data of SMS for previous three years as pointed out in audit para. No further progress was reported till finalization of the report.

Audit recommends to justify high UFG losses at SMSs and to put extra focus on UFG prone areas for carrying out UFG control activities.

[SAR/SSGC/4.1.6.6]

Operational and performances related issues

2.6.4.7 Inaction against the defaulters after disconnection – Rs 8,945 million

According to Clauses 3.1 of recovery department policy document, recovery department is responsible to ensure recovery of increasing dues from default customers of various classes.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that action was taken against 1,030,715 defaulting consumers. Out of these, connection of 519,749 consumers were restored / reconnected either on full payment or payment in instalments. There were 510,966 consumers (49.97% of disconnected consumers) against whom no action was taken by the Company. According to the policy, the recovery proceedings had to be initiated against them in the light of company policy. This resulted in unattended recovery of Rs 8,945 million.

Audit is of the view that due to negligence of the management, cases involving dues of Rs 8,945.000 million were not attended and recovery proceedings could not be initiated.

The matter was reported to the management on February 19, 2024 but no reply was received.

The DAC in its meeting held on February 26 & 27, 2024 observed that no reply was provided by the management. DAC directed to submit detailed reply within a week. No further progress was reported till finalization of the report.

Audit recommends to justify the matter and early recovery besides fixing the responsibility.

[SAR/SSGC/4.3.4]

2.6.4.8 Defective preparation of feasibility reports fetching excess funds from government – Rs 975.230 million

According to Paras 2 & 3 of Guidelines for Implementation of the Prime Minister's Global SDGs Achievement Programme, at least 15 residents of an area or civil society organization would make a request for intervention. The Divisional Commissioner will forward the request to the concerned executing agency for technical feasibility and cost estimates. The proposal would then be submitted to the competent forum for approval. According to DG (Gas) letter No. NG(I)-16(91)/2008-Imp, the Federal Government fixed per consumer cost criteria for extension of gas to new town as well as limit of villages falling within the vicinity of gas fields for Sindh at Rs 54,000 per consumer. The Government would take up the cost if the estimates exceeded this limit.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that 49 feasibility reports for gas development schemes prepared by the SSGC were defective as the costs were escalated in order to get funds from GoP. Audit observed that the management prepared inflated estimates in 22 schemes. It was also observed that in 20 schemes, excess length of network than approved was laid. Further, a smaller number of consumers were taken into account (941 consumers instead of 1,273 consumers) in 7 schemes as a result of which the cost estimates exceeded the limit of Rs 54,000 per customer. This resulted in release of excess funds of GoP amounting to Rs 975.230 million for 49 gas development schemes.

Audit is of the view that due to the preparation of inflated estimates and defective feasibility reports, the management acquired excess funds of Rs 975.230 million from GoP.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 27, 2024 stated that actual network length could be increased or decreased after detailed survey of villages, likewise the actual customers could also be increased or decreased in comparison to feasibility. Management further submitted that all villages were not executed in the same financial year when funds received, due to unavoidable circumstances. Therefore, due to increase / decrease in the pipe laying costs, the cost of the project could be increased or decreased accordingly. Audit contended that extra

care must be exercised while preparing the estimates in order to avoid unnecessary burden on national exchequer.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to share project-wise details along with reasons for variation with Audit. No further progress was reported till finalization of the report.

Audit recommends to probe the matter besides taking corrective measures for surrendering / regularization of excess funds obtained from GoP.

[SAR/SSGC/4.3.8]

2.6.4.9 Poor performance due to late filing of recovery suits - Rs 202.717 million

According to Clause 3.1 of legal department policy document, “legal department 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”. According to Serial No 61 of First Schedule of Limitation Act, 1908, “every suit instituted, appeal preferred, and application made after the period of limitation (3 year) prescribed therefore, by the First Schedule shall be dismissed although limitation had not been set up as a defence”.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that the management failed to file recovery suits against the defaulters within maximum period of 3 years. The SS & CGTO department forwarded 72 cases to legal section for filing of recovery suits after lapse of period ranging up to 9 years as detailed below:

(Rs million)				
Sr. No.	Years	Delay Period	No of case	Amount of Recovery Suits
1	2013	9 years	19	37.336
2	2014	8 years	17	44.398
3	2015	7 years	28	32.834
4	2016	6 years	02	62.814
5	Different periods*	-	06	25.335
Total			72	202.717

(* Dates were not mentioned in the data provided by the SSGC)

Further, in 6 cases, involving an amount of Rs 17.286 million, the courts dismissed the recovery suits of the Company on grounds of time limitation.

Audit is of the view that due to weak internal controls, the late assessment of claims was done which resulted in delay in filing of recovery suits.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 27, 2024 stated that criminal proceedings of these cases were in progress. Recovery suits were filed as an alternate remedy in case of acquittal in criminal cases or were delayed in prosecution due to various reasons. Section 20 of the Gas (Theft Control and Recovery) Act, 2016, provided relaxation that no time bar was applicable on recovering of arrears or sum due of any kind. Audit contended that the reply of the management was not tenable as courts dismissed 06 cases involving amount of Rs 17.286 million on the grounds of time limitation.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to present details of all the cases along with their latest position. DAC further directed the management to enhance their efforts for early finalization of the cases. No further progress was reported till finalization of the report.

Audit recommends to justify the matter and explain reasons on case-to-case basis besides fixing the responsibility.

[SAR/SSGC/4.3.14]

2.6.4.10 Loss due to expiry of NOC for rehabilitation work – Rs 50.523 million

According to Clause 4.4.1 of policy document of distribution department of SSGC, sectional heads are responsible for planning activities which inter alia includes requisite approvals and NOCs from other government authorities, public and private entities shall be obtained prior to execution of any planned activity.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that the management sought NOCs from various authorities having ownership of the land on which the development work was to be executed i.e. National Highway Authority, Provincial Highway Authorities, Cantonment Board, etc. However, the management failed to execute five rehabilitation works within the time period for which NOCs were granted by the relevant authorities.

As a result, the company had to seek fresh NOCs and bear extra cost of Rs 50.523 million.

Audit is of the view that negligence on the part of the management resulted in incurrence of extra cost of Rs 50.523 million on renewal of NOCs.

The matter was reported to the management on February 19, 2024 but no reply was received.

The DAC in its meeting held on February 26 & 27, 2024 observed that no reply was provided by the management and directed to submit reply within a week. No further progress was reported till finalization of the report.

Audit recommends to justify the matter besides fixing the responsibility.

[SAR/SSGC/4.3.17]

Non-Compliance of GoP policy

2.6.4.11 Non-realization of Gas Infrastructure Development Cess – Rs 16,070.000 million

According to Section 3(1) of the Gas Infrastructure Development Cess Act, 2015, the Cess shall be levied and charged by the Federal Government from gas consumers or the Company at the rates provided in second Schedule to this Act.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that the management failed to collect GIDC amounting to Rs 16,070.000 million from 588 live and disconnected consumers. This amount was in addition to those consumers who had approached the court of law. An amount of Rs 162.660 Billion was receivable from 1,823 consumers whose cases were under litigation.

Audit is of the view that due to weak financial management, GIDC amounting to Rs 16,070.000 million could not be recovered from gas consumers.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 26, 2024 stated that the company was pursuing customers to pay their GIDC liability through reminders and recovered Rs 0.30 Billion after completion of instalment period. The management further explained that company had no other option except to disconnect their gas

supplies in case of default. The management had taken up the matter with Ministry to issue clear government directives to disconnect those customers who had GIDC arrears.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to follow up recovery from the customers. No further progress was reported till finalization of the report.

Audit recommends to ensure the recovery of GIDC from the gas consumers besides pursuing the court cases vigorously.

[SAR/SSGC/4.5.2.1 & DP No. 3374]

2.6.4.12 Non-implementation of decision of ECC – Rs 4,157 million

Economic Coordination Committee (ECC) of the Cabinet in its meeting held on February 07, 2018 approved in principle, the proposal regarding waiver of LDs adjusted by HCPC (M/s Habibullah Coastal Power Company Ltd.) with the direction to Petroleum Division to work out modalities in consultation with stakeholders. LDs adjusted by HCPC against gas bills are recoverable from HCPC as per ECC's aforementioned decision.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that the management failed to get the decision of ECC implemented regarding waiver of LDs adjusted by HCPC against gas charges despite lapse of more than five years. During June, 2023, the management discarded the process of working out modalities for waiver of LDs imposed by WAPDA and declared the amount receivable from HCPC amounting to Rs 4,157 million as irrecoverable (bad debt) / operating expense. This resulted in non-recovery of receivables from HCPC of Rs 4,157 million.

Audit is of the view that non-compliance of the ECC decision resulted in non-adjustment of LDs and conversion of receivables from HCPC into bad debts.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 26, 2024 stated that considering HCPC's lack of interest in further pursuing the LDs waiver/settlement, SSGC immediately informed the Ministry of Energy (Petroleum Division) on June 20, 2023, and requested to OGRA to allow LDs as operating expenses. The matter was taken up with OGRA under MFRR for FY 2021-22. Audit contended that

the Company failed to implement the decision of ECC despite a lapse of five years and converted receivable from HCPCL as bad debts / operating expense before approval of OGRA, if the regulator did not agree with the Company, then financial loss of SSGC would further increase.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to pursue the matter with OGRA. No further progress was reported till finalization of the report.

Audit recommends to probe the matter relating to non-implementation of ECC's decision regarding waiver of LDs despite lapse of more than five years besides fixing the responsibility on the persons at fault.

[SAR/SSGC/4.5.2.2]

2.6.4.13 Irregular installation of 32,920 new gas connections during moratorium

According to Ministry of Energy (Petroleum Division) / DG Gas letter No.NG(D)-16(91)/2021-Imp-Pt dated December 03, 2021 the Government while taking cognizance of wide gap in gas supply and demand had imposed moratorium on expansion in domestic gas network.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that the management installed 32,920 new domestic meters / gas connections after the moratorium was imposed by the Federal Government in December, 2021.

Audit is of the view that weak internal controls and non-observance of government directions resulted in irregular installation of 32,920 domestic meters.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 26, 2024 stated that a clarification was sought from Ministry on December 08, 2021 and a reminder was issued on January 19, 2022. However, no reply was received from Ministry. Subsequently, it was clarified in March, 2022 and immediately moratorium was imposed on all domestic connections.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to get these connections regularized from Ministry of Energy /

Federal Government. No further progress was reported till finalization of the report.

Audit recommends to refer the matter to the Federal Government for consideration and fix responsibility on the persons at fault.

[SAR/SSGC/4.5.2.4]

Non-compliance of OGRA

2.6.4.14 Loss due to non-claim of finance cost relating to short term borrowing – Rs 2,433 million

According to Rule 17(h & J) of Natural Gas Tariff Rules, 2002, tariff should generally be determined taking into account a rate of return as provided in the license, prudent operation and maintenance cost, depreciation, financial charges and cost of natural gas.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that the management failed to timely claim the finance cost incurred on short-term borrowing in its petitions to OGRA during respective years. The management submitted claim of Rs 2,433 million during FY 2019-20 for financial charges relating to FYs 2013-14 to 2018-19. Authority did not allow the claim due to the close of financial years. This resulted in loss of Rs 2,433 million.

Audit is of the view that due to weak financial control and negligence of the management, finance cost on short-term borrowings could not be claimed during respective years and thereby Company sustained a loss of Rs 2,433.000 million.

The matter was reported to the management on February 19, 2024. The management did not submit reply.

In the absence of reply, the DAC in its meeting held on February 26 & 27, 2024 directed management to provide reply within a week. No further progress was reported till finalization of the report.

Audit recommends to probe the matter to fix the responsibility on persons at fault.

[SAR/SSGC/4.5.4.1]

2.6.4.15 Non-adjustment of saving in HR Cost – Rs 1,503.500 million

According to Para 4.2.4 of annual report 2005-06 read with Para 4.2.9 of annual report 2017-18 of OGRA, the Authority introduced HR cost benchmark to be determined on the basis of parameters; 50% of Consumer Price Index (CPI), number of consumers (65%), network in KMs (25%) and Sales (10%). Savings or excess in HR cost will be shared equally between the companies and consumers.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that the management recorded a cumulative saving of Rs 3,007.000 million against the OGRA benchmarks during the FYs 2018-19 & 2020-21. According to above stated policy, the benefit of 50% of this saving i.e., Rs 1,503.500 million was to be given to the consumers. However, the benefit was not shared with the consumers in the FRRs for FYs 2018-19 & 2020-21.

Audit is of the view that poor regulatory compliance resulted in non-adjustment of saving in HR cost of Rs 1,503.500 million.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 26, 2024 stated that SSGC offered the savings to OGRA in its petition FRR FY 2018-19 but OGRA changed its modalities and refused to extend HR benchmark savings in its determination. This stance of OGRA was further continued in its FRR determination FY 2019-20. Audit contended that OGRA vide para 10.5.6 of FRR 2018-19 decided that in the wake of overspendings, there was no justification to share 50% savings or surplus with the petitioner. Hence, SSGC management was required to surrender total savings of Rs 3,007.000 million to OGRA but the Company did not report the savings to OGRA.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to get the stated stance verified by Audit. No further progress was reported till finalization of the report.

Audit recommends to refer the matter to OGRA for adjustment of savings in next FRR.

[SAR/SSGC/4.5.4.3]

2.6.4.16 Un-authorized use of gas by 161,379 consumers due to non-removal of service line of disconnected connections

According to Standard No. 24 of Performance and Services Standard issued by OGRA vide SRO 396(I)/2019 dated February 27, 2019 the Company shall remove service line of the disconnected premises if the consumer does not procure reconnection, within 180 days for domestic consumer within 60 days for commercial consumer and within 30 days for industrial consumer.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that contrary to above Standards, the management did not remove the service line of disconnected consumers to stop the consumer from un-authorized use of gas connection. These consumers were disconnected due to non-payment of dues. Resultantly, the consumers again re-connected unlawfully and started un-authorized use of gas as detailed below:

Sr. No.	Description	2018-19	2019-20	2020-21	Total
1	Domestic consumers	41,000	41,000	61,129	143,129
2	Commercial consumers	6,700	4,500	7,050	18,250
Total		47,700	45,500	68,179	161,379

(Source: Annual Reports)

Audit is of the view that due to non-compliance of performance and services standards, the management failed to remove the service line of disconnected consumers, resultantly the Company had to sustain loss.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 27, 2024 stated that defaulters increased during lockdown imposed by the Government of Pakistan and work from home directives of Management from March, 2020 to August, 2020 due to Covid-19. Compliance was improved up to 80% during the half year ending in December, 2022 despite the rain flooding in Interior Sindh and Balochistan in the 1st quarter. The performance was expected to improve further in future.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to provide justification for not removing service lines of the disconnected customers. No further progress was reported till finalization of the report.

Audit recommends to justify the matter besides fixing the responsibility as Company suffered losses.

[SAR/SSGC/4.5.4.4]

Weak Internal Controls

2.6.4.17 Loss due to gas theft through fake meters - Rs 123.611 million

According to Sections 462D and 462E of Pakistan Penal Code, 1860 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 Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that the management identified six cases of fake meters for illegal connections. SS & CGTO department of SSGC detected these fake meters but it was not investigated as to from where these meters were got for these illegal connections. The management was required to identify if these meters were from the company’s store or otherwise so that theft could be controlled. This resulted in loss of Rs 123.611 million due to gas theft through six fake meters.

Audit is of the view that weak internal controls resulted in non-detection of fake meters timely.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 27, 2024 stated that preliminary investigation had been initiated, and once it is completed the report would be shared.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to complete the enquiry proceedings within two months. DAC further directed to improve the system. No further progress was reported till finalization of the report.

Audit recommends to inquire in the matter and fix responsibility on the person(s) at fault.

[SAR/SSGC/4.6.4]

2.6.4.18 Unjustified assignment of 61% recovery suits to seven lawyers only

According to Clause 3.1 of legal department policy document, “legal department 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.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that M/s Iqbal Asim law firm filed a suit for recovery of Rs 58 million against SSGC on account of fee of 624 court cases. In 15 legal cases assigned to M/s Iqbal Asim, the management paid the double / excess payment of Rs 3.300 million without verification of already paid professional fee. Moreover, out of total 2,299 cases, 61% cases were assigned to the 7 lawyers and rest of the 834 cases (39%) were assigned to 90 advocates.

Audit is of the view that weak internal controls regarding assigning cases to lawyer resulted in dispute and consequently filing of suit for recovery by M/s Iqbal Asim law firm against the SSGC.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 27, 2024 stated that success rate of cases was around 90% before 2021 and around 75% after 2021. Audit contended that large number of cases were assigned to M/s Iqbal and Asim without analysing the capacity handle these cases which resulted in litigation with the law firm and consequential risk of non/slow pursuance of these cases.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to probe the matter and share internal audit report with Audit and submit intra court appeal for vacation of stay order. DAC also directed to share amount involved in cases with Iqbal Asim law firm. DAC further directed the management to provide Board decisions regarding delegation of such power to MD and further delegation as claimed by the management and get the same verified from Audit. No further progress was reported till finalization of the report.

Audit recommends probing the matter besides the implementation of decision of the DAC.

[SAR/SSGC/4.6.6]

2.6.4.19 Dismissal of recovery suits due to non-deposit of court fee and non-submission of power of attorney – Rs 24.496 million

According to Clause 3.1 of legal department policy document, “legal department 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.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that the management failed to deposit the court fees in 5 recovery suits involving amount of Rs 17.745 million. The court dismissed the recovery suits filed by the Company due to non- payment of court fee. Further, the management did not submit the power of attorney in 4 other cases. Consequently, the court dismissed the recovery suits filed by the Company amounting to Rs 6.751 million. This resulted in loss of Rs 24.496 million in five recovery suits including legal charges.

Audit is of view that non-payment of court fee and non-submission of power of attorney reflected weak internal controls.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 27, 2024 stated that appeals were filed against the dismissal cases on account of non-submission of fee due to the negligence of the relevant lawyers therefore they were delisted from the panel. Further, BoD delegated the power to MD to file and defend the cases on behalf of the Company. MD further delegated power to file and defend cases to most of the employees of legal department through sub-power of attorney.

The DAC in its meeting held on February 26 & 27, 2024 expressed serious concerns about the performance of the legal wing of the Company and directed the management to probe the matter. DAC further directed the management to improve the performance of the legal wing. DAC directed the management to provide Board decisions regarding delegation of such power to MD and further delegation as claimed by the management and get the same verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to probe the matter, implement the decision of the DAC besides fixing responsibility on the persons at fault.

[SAR/SSGC/4.6.7]

2.6.4.20 Non-observance of transparency and merit policy in appointments

According to Rule 3.1 of Executive Staff Services Rules of SSGC, SSGC's recruitment decisions are based upon a careful selection process in order to determine the individual best qualified for a position to be filled. As an equal opportunity employer, SSGC follows a transparent and merit based recruitment policy and its selection procedure and employment policies are geared to attract and retain capable and qualified executives who are willing to contribute their best to accomplish the objectives of the company. SSGC believes that its executives are the people who give the company their skill, energy and time, making them its most precious asset. Further according to vision statement of SSGC, related to transparency stipulates that company should promote open environment, display openness and consistency in applying policies and procedures, respect dissent and resolve conflicts fairly.

During the Special Audit of SSGC for the year 2020-21 to 2022-23, it was observed that the management failed to implement the policy of transparency and merit based appointments in 6 cases. Two appointments were made at senior management posts without advertisement or advertisement was made for lower grade but at the time of issuance of offer letter, next grade was awarded to two applicants. Further, in other two cases, candidates did not meet the qualification criteria given in advertisement (Annex-7).

Audit is of the view that weak HR management resulted in appointments in violation of HR policy, rules, and advertised criteria.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 27, 2024 stated that Board/MD was competent to appoint the candidates and Company sends security clearance for each executive, however, the concerned authorities did not respond on each security clearance. The management further stated that in case of irrelevant qualification of Deputy Manager IT, the employee was transferred to another department. Audit contended that reply of the management was irrelevant as para was regarding appointment without advertisement and transfer of employees from IT department was not remedy to this irregularity.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to get the stance of BoD regarding violation of right to equal opportunity, by direct appointment without giving fair chance to eligible

candidates verified by Audit. DAC further directed to take up the matter with PAC. No further progress was reported till finalization of the report.

Audit recommends to probe the matter, take corrective action to ensure transparency and merit-based appointments besides fixing the responsibility.

[SAR/SSGC/4.6.10]

2.6.4.21 Excess capitalization of meters - Rs 366 million

According to Rule 17(h) of Natural Gas Tariff Rules 2002 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 Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that as per system-generated soft record provided to Audit, the management installed and replaced 473,590 meters. Whereas, According to FRR for the FY 2020-21 new gas meters installed and replaced were 543,880. Audit observed that there was a discrepancy / variation of 70,290 meters as per record provided to audit and the record in FRR. By reporting excess meters than installed, the management claimed more expenses as revenue requirement than actually utilized. This resulted in excess claim of cost of Rs 366 million and excess guaranteed return of Rs 64 million as detailed below:

Particulars		2020-21
New meter Installed as per FRR	A	130,344
Meter replacement as per FRR	B	413,536
Total	C	543,880
Meter installed and replaced as per record	D	473,490
Difference	E=C-D	70,290
Excess capitalized amount (Rs 5,207 x 70,290 = Rs 366,000,000) (Rs in million)	F	366
Excess return obtained on excess capitalization (Rs in million)	G	64

Audit observed that as per FRR for the FY 2020-21, 130,344 new meters were installed whereas the Financial Statement for the FY 2020-21 reflected that new consumer increased by 98,275 which resulted in difference of 32,069 in new meter installed during the FY 2020-21 causing doubts about the figures.

Audit is of the view that due to poor regulatory compliance, excess meter cost was capitalized which resulted in excess return on asset.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 26, 2024 stated that OGRA allowed less capitalized amount of Rs 775.000 million (Rs 3,884.000 million – Rs 3,109.000 million) hence, there was neither excess capitalized amount allowed by OGRA nor excess return earned by SSGC. Audit contended that there was a discrepancy between the figures reported to Audit and those reported to OGRA which needed justification.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to get number of meters replaced verified by Audit within two days. No further progress was reported till finalization of the report.

Audit recommends to probe the matter and fix responsibility on the persons at fault besides adjustment of excess capitalization in next FRR.

[SAR/SSGC/4.7.5]

2.6.4.22 *Illegal removal of outstanding gas charges from consumer ledgers – Rs 284.790 million*

According to Clause 20.8.1 of HR manual of SSGC, the Company reserves the right to dismiss any executive on immediate basis that is found guilty of misconduct or any fraud.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that sixteen employees were found involved in fraud involving removal of outstanding gas charges from the consumer ledgers in January, 2019. The illegal removal of charges could not be detected by the management till July, 2020 i.e., 18 months later. The management took the action with undue delay. In one case involving 900 customers worth Rs 223.000 million, no action had initiated. This resulted in illegal removal of outstanding gas charges from customer accounts and loss of Rs 284.790 million.

Audit is of the view that the weak monitoring resulted in late detection of the illegal removal of gas charges from consumers.

The matter was reported to the management on February 19, 2024 but no reply was submitted.

The DAC in its meeting held on February 26 & 27, 2024 reiterated its earlier directives dated January, 16, 2024 to present a comprehensive report

covering all aspects including action taken to improve the system. No further progress was reported till finalization of the report.

Audit recommends to probe the matter and initiate disciplinary action against the responsible besides ensuring recovery of outstanding amount from consumers.

[SAR/SSGC/4.8.1]

Receivables Management

2.6.4.23 Non-recovery of outstanding dues from industrial consumers - Rs 55,731.322 million

According to Para 4.4.1 read with Para 4.4.7 of Natural Gas Consumer Service Manual, 2011 and Para 4.5 of SSGC Recovery Policies / Procedures, supply is disconnected if the customer commits a default in the payment of two consecutive monthly bills or where outstanding amount is not secured by the Gas Security Deposit (GSD) or surpass the GSD amount. Further, according to SSGC Recovery Policies / Procedures, “company will disconnect gas supply of a customer who is defaulter of payment of regular gas bills or instalment of gas bill or any amount of gas supply deposit.”

During audit of SSGC for the FY 2023-24, it was observed that the management failed to recover huge outstanding amount of gas charges from 455 industrial customers amounting to Rs 1,895.280 million and Rs 53,836.040 million from commercial and domestic customers aggregating to Rs 55,731.322 million. It was pertinent to mention that out of total outstanding amount, an amount of Rs 24,717.330 million was unsecured.

Audit is of the view that weak financial management resulted in non-recovery of Rs 55,731.322 million from consumers.

The matter was reported to the management in August, 2024. The management in its reply dated January 06, 2025 stated that out of 455 customers, 95 customers (Rs 102.76 million) were disconnected and under recovery drive within their security deposit (all secured), net balance recoverable amount was Rs 1.790 Billion out of Rs 1.895 Billion (after disconnection), SSGC successfully recovered Rs 1.780 out of 1.79 Billion. Audit apprised that recovery of Rs 337.785 million had been verified.

The DAC in its meeting held on January 06 & 07, 2025, directed the management to get the stated stance verified from Audit and expedite the recovery of outstanding amount. No further progress was reported till finalization of the report.

Audit recommends to expedite the recovery of outstanding dues.

[DP Nos. 3368 & 3425]

2.6.4.24 Loss due to double payment on account of LPS to HCPC – Rs 312 million

According to Section 5(5)(a) of Public Sector (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.”

During audit of SSGC for the FY 2023-24, it was observed that due to dispute HCPC set off two debit notes of Rs 586.500 million on October 03, 2019 for the period from January, 2019 to September, 2019. The management of SSGC disconnected gas supply of HCPC on October 03, 2019 after expiry of GSA. In this regard, SSGC and HCPC had two arbitration proceedings in the past and both arbitrations were decided in favour of HCPC. The core issue in both arbitrations was related to imposition of liquidated damages by WAPDA on HCPC and which passed on to SSGC on account of short / non-supply of gas during winter months. As per record, the management paid Rs 312 million regarding LPS amount under the First Arbitration and the same was paid again in the Second Arbitration to HCPC. It showed that the management made double payment of LPS to HCPC.

Audit is of the view that due to weak financial management, the management paid an amount of Rs 312 million on account of double payment of LPS.

The matter was reported to the management in September 2024. In DAC meeting held on January 06 & 07, 2025, management stated that SSGC engaged with HCPC to resolve a dispute over the LPS of Rs 312.000 million, which was erroneously included in an earlier arbitration award. HCPC agreed to settle under waiver settlement on ECC directives in 2018. Additionally, SSGC had requested

OGRA to consider the disallowance of Rs 312.000 million as part of the LDs in the MFR 2022-23.

The DAC in its meeting held on January 06 & 07, 2025, directed the management to conduct fact finding inquiry to probe the matter and share report to Audit with three months. DAC further directed the management to pursue the matter to resolve the issue. No further progress was reported till finalization of the report.

Audit recommends to probe the matter besides fixing responsibility on person(s) at fault.

[DP No. 3373]

Procurement Related Issues

2.6.4.25 Non-resolution of dispute regarding Off-Spec gas resulting in excess cost of gas – Rs 281.327 million

According to Clauses 1.31 & 4.03 of Gas Sale and Purchase Agreement (GSPA), if gas delivered does not conform to the specification set out in Annexure-II of this agreement, the off-spec gas shall be priced at 85% of the natural gas price. Further, according to Clause 16.01 of GSPA, if any dispute arises between the parties shall make all reasonable endeavours to resolve the dispute amicably within period of 45 working days from the service of the notice of dispute, without reference to third party or forum.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that the seller i.e. OGDCL supplied off-spec gas to SSGC from 8 gas fields occasionally in violation of specification of gas as given in GSAs / term sheets. SSGC management failed to avail discount of Rs 281.327 million on account of off-spec gas as per GSPA despite lapse of period ranging up to 11 years. The seller issued invoices without allowing any discount / adjustment as issue of off-spec gas was not resolved. This resulted in excess cost of gas which was passed on to the end consumers through pricing.

Audit is of the view that due to non-resolution of dispute on off-spec gas, excess cost of gas was charged from the end consumers through pricing by OGRA.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 26, 2024 stated that invoices of gas from Kunnar Pasakhi Deep for the period 2018-2020 were not yet settled, Nur Bagla gas invoices were put on hold due to incorrect GCV applied in invoice, Sari gas field invoices for February, 2020, May, 2020, August, 2020 & March, 2022 were on hold due to excessive moisture content in the delivered gas and Daru gas field invoices for February, 2020 & March, 2022 were on hold due to pending volume calculation by OGDCL.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to get all issues resolved within three months.

Audit recommends to take corrective action and resolve the matter at earliest.

[SAR/SSGC/4.2.2]

2.6.4.26 Procurement at higher price due to non-consolidation of requirement – Rs 216.477 million

According to Clause 3.1 read with Clause 4.5.1 of Procurement Policy of SSGC, the procurement department shall ensure that procurements are conducted in a fair, objective and transparent manner, the object of procurement brings value for money to SSGC and the procurement process is efficient and economical.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that the management failed to consolidate various requisitions for the purchase of same items from different departments. The issuance of separate purchase orders caused purchase at higher price ranging from 7% to 80% than the same item purchased during the same period.

Audit is of the view that weak internal control and inefficient procurement practices resulted in procurement at higher price amounting to Rs 216.477 million.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 26, 2024 stated that items pointed by audit had different specifications. The Management further stated that the material was requisitioned by two separate operational areas i.e., Transmission and Distribution. The procurement plan for Transmission and Distribution

departments were separately compiled due to distinct nature of operations. Audit contended that items with same specification were pointed by Audit. Moreover, requisitions raised by two different departments were processed by procurement department so these requirements could be consolidated.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to probe the matter regarding non consolidation of total requirement of same item and procurement at higher price.

Audit recommends to probe the matter besides improving the procurement practices.

[SAR/SSGC/4.2.3]

2.6.4.27 Inefficient procurement resulting in extra cost – Rs 183.808 million

According to Clause 3.1 read with Clause 4.5.1 of Procurement Policy of SSGC, the procurement department shall ensure that procurements are conducted in a fair, objective and transparent manner, the object of procurement brings value for money to SSGC and the procurement process is efficient and economical. Further, According to memorandum dated January 30, 2015 and October 14, 2021 of SSGC, the management approved the procurement cycles of 60 days (2015), 76 days (2020) & 88 days (2021) for local procurement. Similarly, procurement cycle of 90 days (2015), 108 days (2020) & 120 days (2021) for foreign procurement.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that the management failed to perform as per stipulated procurement cycles. In case of foreign procurement, 78% procurements were finalized with delay ranging up to 1570 days whereas 46% local procurement was delayed up to 2,271 days as detailed below:

(Rs in million)				
Foreign Procurement Cycle				
Sr. No.	Delays	Items Procured	Amount	% of total procurement
1	Up to 120 days	428	1,914	22%
2	121 to 1570 days	1499	6,454	78%
	Total	1927	8,974	
Local Procurement Cycle				
3	Up to 88 days	3,951	5,040	54%

4	89 to 2,271 days	3,403	8,518	46%
Total		7,354	13,558	

Audit observed that in nine illustrative cases procurement process for capital stock items was started in the FYs 2015-16 to 2018-19, and was completed in August, 2021 and June, 2022. The tender inquiries were cancelled time and again on pretext of budget deficit. Instead of cancellation of tender inquiries, the management did not revise the budget timely. Cancellation and re-tendering increased the procurement cost ranging from 18% to 213%. In the FY 2023-24 management short-listed vendor and instead of awarding the contract or issuance of purchase order, the management of SSGC cancelled 06 tenders on the plea that Petroleum Division had imposed a moratorium on installation of new gas connection. This resulted in extra cost of procurement amounting to Rs 76.326 million due to delays in finalization of tenders and repeated cancellation and retendering. Major delay was due to in-efficiency of management as in one case tender inquiry was cancelled because user department wasted 218 days out of 240 days in tender evaluation and finally purchase order was issued after a lapse of 757 days.

Moreover, in eight other cases, the management failed to complete the procurement of spares for solar turbines due to amendments in Letter of Credit regarding mode of shipment. Resultantly, delivery of spares was pending despite several requests by the supplier, and a lapse of three years. This resulted in extra procurement cost of Rs 107.482 million due to delay. It was also observed that instead of completing the procurement process in time, the time frame was increased on multiple occasions.

Audit is of the view that poor procurement management resulted in delay in procurement as well as cost escalation of Rs 183.808 million.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 26, 2024 stated that procurement department was using ERP-E business suite which had ability to record only the 4 steps of procurement cycle. The management further explained that procurement cycle was followed in true letter and spirit on case-to-case basis which was 88 days for local tender and 120 days for foreign tender. In case of procurement of spares and amendment in L/C, SSGC was pursuing Letter of

Credit for revalidation. Audit contended that reply was not tenable as record and data relating to procurement did not support the stance of the management.

The DAC in its meeting held on dated February 26 & 27, 2024 directed the management to provide the data pointed out by Audit comparing it with the criteria set by the management itself. DAC also directed the management to provide the justification of delayed procurement. In case of procurement of spares and L/C amendment, DAC directed the management to resolve the issue within three months. DAC further directed to get chronological order of incidents verified by Audit.

Audit recommends to probe the matter to identify gaps leading to delays in procurement cases, improve the performance towards achievement of an efficient procurement cycle besides fixing responsibility.

[SAR/SSGC/4.2.4]

2.6.4.28 Irregular award of contract due to tampering of record

According to Clause 4 of the Public Procurement Rules, 2004, procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of SSGC for the FY 2023-24, it was observed that the management signed a contract with M/s Pak Telecom Mobile Ltd. for Rs 13.269 million on March 1, 2024. The signing date was observed to be before the issuance of stamp papers used for contract signing (March 26, 2024) and acceptance of the Letter of Intent (LOI). The contract was later presented with a different date i.e. September 10, 2024, during the exit meeting with Audit. It was revealed that the original contract had been altered by the management showing that the record was tampered on pointation of irregularity by Audit.

Audit is of the view that signing of contract before issuance of stamp papers was not possible. Moreover, the record was tampered on pointation of Audit.

The matter was reported to the management in September, 2024. In DAC meeting held on January 06 & 07, 2025, the management stated that Letter of Intent (LOI) was issued on February 02, 2024. Pak Telecom Mobile Ltd.

accepted LOI on March 26, 2024 and on same date submitted e-Stamp papers. The contract signing process on behalf of SSGC was started on September 09, 2024. The contract was finally signed on September 10, 2024. Audit contended that the contract was found to be tampered by changing the date from March 1, 2024 to September 10, 2024.

The DAC in its meeting held on January 06 & 07, 2025, directed the management to conduct inquiry and fix the responsibility on the person responsible and share report with Audit within two months. DAC further directed the management to refer the matter to FIA for detailed investigation. No further progress was reported till finalization of the report.

Audit recommends to take action against persons at fault.

[DP Nos. 3403 & 3409]

2.6.4.29 *Unjustified extensions after the expiry of contract period - Rs 27.550 million*

According to Clause 4 of the Public Procurement Rules, 2004, procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of SSGC for the FY 2023-24, it was observed that management extended as well as amended five procurement contracts valuing Rs 27.550 million. For instance, the contract with M/s Jaffer Business System Private Ltd. amounting to Rs 9.850 million expired on April 19, 2023 but the extension was signed on August 11, 2023 i.e. three months after the expiry of the contract. This resulted in illegal extensions after the expiry of the contract period amounting to Rs 27.550 million.

Audit is of the view that non-compliance of PPRA Rules resulted in illegal contracts.

The matter was reported to the management in September, 2024. In DAC meeting held on January 06 & 07, 2025, management stated that the contracts were extended as per clause of special terms and condition of contract and after getting due approval from the competent authority. Audit contended that the extension was granted after the expiry of the original contracts.

The DAC in its meeting held on January 06 & 07, 2025 observed that the company should review its process of contract agreement. DAC directed the management to provide original contracts. DAC further directed the management not to make any payment before signing of the agreements and fix the responsibility on the person(s) at fault and report to Audit within two months.

Audit recommends to enquire the matter and responsibility be fixed on person(s) at fault. Audit also recommends that the procurement staff be trained professionally so that the inefficiency in the system can be overcome leading to more beneficial contracts and reduced litigation.

[DP Nos. 3383, 3387, 3399, 3405 & 3406]

2.6.4.30 Irregular hiring of manpower contract without open competition - Rs 1,268.704 million

According to Clause 4 of the Public Procurement Rules, 2004, procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of SSGC for the FY 2023-24, it was observed that the management awarded the manpower services contract amounting to Rs 1,268.704 million to different contractors without open competition. This resulted in irregular hiring of third party manpower contracts without open competition amounting to Rs 1,268.704 million.

Audit is of the view that due to poor contract management third-party manpower contracts were awarded without open competition in violation of PPRA Rules.

The matter was reported to the management in September, 2024. In DAC meeting held on January 06 & 07, 2025, the management stated that the case of legacy contractor who earlier provided human resource was pending in the Supreme Court of Pakistan. Audit contended that reply of the management was irrelevant.

The DAC in its meeting held on January 06 & 07, 2025, directed the management to follow the PPRA Rules in letter and spirit and pursue the court case vigorously. No further progress was reported till finalization of the report.

Audit recommends to justify the reasons for irregular hiring of third party manpower contract without open competition and fix the responsibility on the persons at fault.

[DP No. 3408]

2.6.4.31 Non-transparent procurement due to materially altering bid conditions - Rs 322.95 million

According to Rule 30(3) of PPRA Rules, 2004, a bid once opened in accordance with the prescribed procedure shall be subject to only those rules, regulations and policies that are in force at the time of issue of notice for invitation of bids. Further, according to Clause 7 of the tender enquiry, “in case the supplier fails to deliver the material within the specified delivery schedule as given in Purchase Order (PO) and maximum up to 120 days after the expiry of the specified delivery schedule as per Purchase Order, the Purchase Order will be treated automatically as cancelled at supplier’s sole risk & cost.”

During audit of SSGC for the FY 2023-24, it was observed that in two cases the management materially amended the terms and conditions of contracts on the request of bidders. In case of purchase of Turbine Meters for US\$ 1,097,590 equivalent to Rs 309.235 million, the shipment quantity and delivery period were altered on the request of the successful bidder. In case of M/s ICL International Private Ltd. for purchase of IS Servers amounting to Rs 24.327 million, the delivery period was revised on the request of the contractor. After the vendor failed to deliver some items, the purchase order was revised by reducing these items bringing the contract amount to Rs 13.714 million, thus materially altering the bid conditions.

Audit is of the view that non-compliance of PPRA Rules led to non-transparent procurement amounting to Rs 322.949 million.

The matter was reported to the management in September, 2024. In DAC meeting held on January 06 & 07, 2025, management stated that procurement of Turbine Meters was processed on FOB / C&F under single stage two envelope bidding procedure as per rule and foreign purchase order was placed after approval of the management. In second case it was stated that the project committee recommended that requirement of three server be treated as cancelled,

as these were no more required. Audit contended that the justification for violation of PPRA Rules was not provided.

The DAC in its meeting held on January 06 & 07, 2025, observed that the management needs to improve the system of procurement especially related to coordination among various stakeholders and need assessment. DAC directed the management to provide a comprehensive report on the issue to Audit. DAC further directed the management to get the stated stance verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to comply the PPRA Rules to ensure transparent and efficient procurement besides fixing responsibility on the persons at fault.

[DP Nos. 3392 & 3396]

2.6.4.32 Non-implementation of directives of Federal Government

According to Federal Cabinet's decision dated October 11, 2022, an inter-ministerial committee was constituted to recommend short-term, medium term and long-term implementation plan for energy conservation. The Prime Minister of Pakistan in meeting dated November 16 & 30 directed that conical baffles shall be added to gas geysers. Further, as per decision of meeting held on January 05, 2023 chaired by the Prime Minister of Pakistan, the procurement and installation of 350,000 conical baffles was to be completed by October 31, 2023.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that the management failed to implement the directives of Federal Government regarding installation of conical baffles by October, 31, 2023. This resulted in non-implementation of Federal Cabinet's decision.

Audit is of the view that due to poor procurement management, conical baffles could not be installed within target date.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 26, 2024 stated that re-tendering for installation of conical baffles was under process and 19,820 conical baffles were installed to date. The management in its further reply dated January 07, 2025 stated that if the bids under the subject tender were not commercially / technically viable, then the company could reject all the bids under the Clause (7) of invitation to the bids of tender documents.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to comply with the Cabinet's decision at the earliest.

The DAC in its further meeting held on January 06 & 07, 2025, observed that the management needs to improve the system of procurement especially related to coordination among various stakeholders and need assessment. DAC also directed to identify the person responsible for developing faulty specifications and initiate proceedings. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility for non-adherence to Government directives besides expediting the installation of conical baffles in compliance with the decision of Federal Government.

[SAR/SSGC/4.5.4.2 & DP No. 3390]

HR Related Issues

2.6.4.33 Irregular payment of Qualification Allowance and non-deduction of Income Tax on Monetization Allowance

According to Clause 1 of HR Policy Manual of SSGC, "HR Policy Manual supersedes all previous HR policies and earlier policies that are no longer part of this HR Policy Manual, shall be considered withdrawn with immediate effect". Further, according to Section 149(1) of the 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 on the estimated income of the employee chargeable under the head "Salary" for the tax year in which the payment is made".

During audit of SSGC for the FY 2023-24, it was observed that the management was paying qualification allowance to employees having a CA / ICMA degree as per abolished HR policy. The management irregularly paid Rs 36.084 million during the period from July, 2022 to June, 2024 on account of qualification pay. It was further observed that the management paid Rs 23.393 million to employees on account of Car Monetization Allowance without deducting Income Tax of Rs 7.018 million. This resulted in Irregular payment of Qualification Allowance and non-deduction of Income Tax on Car Monetization Allowance of Rs 30.411 million.

Audit is of the view that weak financial controls resulted in irregular payment of Qualification Allowance and non-deduction of Income Tax of Rs 7.018 million.

The matter was reported to the management in September 2024. In DAC meeting held on January 06 & 07, 2025, management stated that tax on monetization had been deposited. The management further stated that CAs / CMAs were getting qualification allowance not as per abolished policy but as per BoD's approval dated October 31, 2008. The reply was not tenable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on January 06 & 07, 2025, directed the management to take up the matter with FBR for clarification and get the stated stance regarding deposit of tax verified from Audit. DAC further directed the management to immediately stop the Allowance and place the matter before the board within two months. No further progress was reported till finalization of the report.

Audit recommends to recover the qualification allowance paid in violation of HR manual and also deduct income tax on Car Monetization Allowance.

[DP Nos. 3372 & 3378]

2.6.4.34 Irregular appointment due to discrepancies in recruitment process

According to provision of Clause 6.7.4 of HR Policy Manual, 2022 interviewing will take place as per the following grid, through a JD specific Candidate Evaluation Sheet; Grade I to VIII (Interviews Level 1, HR+ Line Manager/supervisor) and (Interviewers Level 2 DGM). Further as per Candidate Evaluation sheet "Interview evaluation forms were to be completed by the interviewers to rank the candidate overall qualifications for the position for which they applied. Under each heading, the interviewer should give the candidate a numerical rating and write specific job-related comments in the space provided. The numerical rating system is based on the scale (1-unsatisfactory to 5-exceptional).

During audit of SSGC for the FY 2023-24, several discrepancies were observed in the recruitment process for several posts. It was observed that the interview panel consisted of irrelevant officers. For example, Company Secretary

conducted the interviews for which line managers was available in violation of HR Manual. Another instance related to absence of any formal nomination on the panel making the whole interview process non-transparent. Audit also observed un-attested cuttings and missing signatures on the evaluation sheets. The supporting documents for authentication of NTS results were not available on record.

Audit is of the view that non-transparent recruitment process adopted by the management resulted in irregular appointments to various posts.

The matter was reported to the management in September, 2024. In DAC meeting held on January 06 & 07, 2025, the management stated that company-wide positions were fulfilled and forming more than 20 different interview panels would not be viable. The interview matrix was a final document and signed by the Interview Panel which validated Interviewer's evaluation and addresses any such shortcoming. The management further stated that improvement had been made in the recruitment process. Audit contended that it was important to maintain full trail of documents for appointment of employees.

The DAC in its meeting held on January 06 & 07, 2025, observed that nomination of Company Secretary in place of line manager as an interview panellist was a gross violation of HR Manual. DAC directed the management to take necessary action against the person responsible and communicate to Audit and also directed the management to provide revised reply supported with evidence regarding identified deficiencies and also get verified from Audit. DAC further directed the management to submit all relevant documents as called by Audit. No further progress was reported till finalization of the report.

Audit recommends to probe the matter, revisit such appointments and place the matter before BoD for appropriate decision and fix responsibility on the persons at fault for not adhering to the criteria.

[DP Nos. 3361, 3366, 3385, 3413, 3418 & 3419]

2.6.4.35 *Irregular appointment of person already employed in Government Department*

According to Clause 28.1.2 HR Policy Manual, 2022, of SSGC disciplinary policy had been developed to provide a framework that may lead to improvements in performance and conduct. Its primary aim is to ensure that

executives maintain the high standards expected from them in the workplace and assist management in implementing its objectives through fairness and consistency thereby, assuring effective operations within the work environment”.

During audit of SSGC for the FY 2023-24, it was observed that a Head Helper had been working in SSGC since 2009 and also employed in the Education and Literacy Department, Government of Sindh as a Peon since 2007. He was reinstated in SSGC in compliance with the Sacked Employees (Reinstatement) Act, 2010. The management issued a show cause notice and initiated an inquiry against the accused person. It was established that the accused was also working in the Sindh Government since 2007. In the light of inquiry report, the competent authority decided to dismiss the accused. This showed irregular appointment of persons already employed in a Department of Government of Sindh.

Audit is of the view that improper verification of particulars of incumbent resulted in employment of person who was already in service of other organization.

The matter was reported to the management in September, 2024. In DAC meeting held on January 06 & 07, 2025, management stated that department had taken appropriate action against the person(s).

The DAC in its meeting held on January 06 & 07, 2025, directed the management to get the stated stance regarding recovery verified from Audit. DAC also directed to pursue the matter with the AG Sindh and AG Balochistan for information regarding dual employees. No further progress was reported till finalization of the report.

Audit recommends to justify appointment of candidate already employed besides improving internal controls.

[DP No. 3364]

2.6.4.36 Irregular engagement of retired executives on vital positions in violation of provision of HR Manual

According to Para 20.2.2 of HR Policy Manual, 2022 of SSGC, “services of an executive attaining superannuation age cannot be further extended or considered for re-employment with the company”.

During audit of SSGC for the FY 2023-24, it was observed that seven executives were re-employed through third-party as consultants in violation of HR Policy Manual. This resulted in irregular engagement of retired executives on vital positions.

Audit is of the view that non-adherence to the HR Manual resulted in engagement of retired executives on vital positions.

The matter was reported to the management in September, 2024. The management in its reply dated January 07, 2025 stated that keeping in view of the operational requirement of the company, the Board of Director decided to engage retired executive through contractor. Further, recently, the BoD had given explicit directives to the management not to engage retired executives either through extension of service or third-party contractor. The instant directives of BoD were being implemented by the management in true letter and spirit.

The DAC in its meeting held on January 06 & 07, 2025, observed that the management circumvented the HR Policy Manual and directed the management to do away the services of all retired personnel. No further progress was reported till finalization of the report.

Audit recommends to probe the matter and take immediate action for removal of hired retired executives besides placing the matter before BoD for regularization.

[DP Nos. 3414 & 3417]

Corporate Governance Related Issues

2.6.4.37 Irregular payment of Car Monetization Allowance - Rs 17.545 million

As per agenda No. 17 of minutes of 592nd meeting of Board Finance & Procurement Committee held on October 18, 2023 the committee after deliberation concluded that the old policy for providing company-maintained vehicles to executives according to grade-wise entitlement is more feasible than the vehicle monetization policy therefore the Committee recommended the Board to restore the old policy of vehicles for entitled executives.

During audit of SSGC for the FY 2023-24, it was observed that executives were eligible for Car Monetization Allowance under the Vehicle

Monetization Policy, 2022. However, during a meeting on October 18, 2023, the Managing Director opposed the policy, advocating for the previous policy of the company for provision of vehicles to the executives. The MD highlighted concerns over the loss of return on assets and an increase in operating expenses if the monetization policy was adopted. Subsequently, in the 592nd BoD meeting held on November 11, 2023, the board restored the old vehicle policy based on the Finance and Procurement Committee's recommendation. Despite this decision, the management continued to pay Car Monetization Allowance, amounting to Rs 17.544 million from November, 2023 to June, 2024, and did not amend the HR policy to reflect the board's decision, indicating non-compliance with corporate governance.

Audit is of the view that Car Monetization Allowance was paid in violation of directives of the Board.

The matter was reported to the management in September, 2024. In DAC meeting held on January 06 & 07, 2025, management stated that the Board, in its meeting dated November 11, 2023 approved the restoration of the old policy for providing company-maintained vehicles to entitled executives, replacing the Vehicle Monetization Policy, 2022.

The DAC in its meeting held on January 06 & 07, 2025, directed the management to take up the matter of non-compliance of its decision with the BoD. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of the DAC besides ensuring compliance of BoD's directives.

[DP No. 3370]

2.6.4.38 Non-evaluation of performance of the Board members, Chairperson and Chief Executive Officer for the FYs 2019-20 to 2023-24

According to Rule 8(1) of Public Sector Companies (Corporate Governance) Rules, 2013, the performance evaluation of members of the Board including the chairman and the chief executive shall be undertaken annually by the Government for which the Government shall enter into performance contract with each member of the Board at the time of his appointment. The MoE-PD had directed to PSEs vide letter dated May 7, 2019, to coordinate with Pakistan

Institute of Corporate Governance for performance evaluation of Board (including the Chairman and Chief Executive Officer).

During Special Audit of SSGC for the years 2020-21 to 2023-24, it was observed that the government did not carry out any performance evaluation of the members of the Board for the FYs 2019-20 to 2023-24. Further, SSGC also did not take up the matter with Pakistan Institute of Corporate Governance (PICG) for evaluation of the performance of the Directors of the Board. Audit is of the view that the board was unable to take strategic decisions / formulate policies for smooth business as detailed below:

- i) The matter of evaluation of board was discussed in five meetings but till date no evaluation of the BoD was carried out;
- ii) Promotion policy was discussed in fourteen (14) meetings. However, during the last three years one promotion cycle was executed which also failed to fulfill the HR gap;
- iii) The BoD determined chairperson's perks and privileges in violation of government policy issued vide Ministry letter No. 2(25)/2022-CA-I dated August 25, 2022 (excess honorarium of Rs 4.050 million and vehicle of 1800cc instead of 1300 CC including the services of driver with abnormal payment of overtime were observed);
- iv) Manpower assessment was discussed in five Board meetings but till date the assessment had not been finalized and management gave extension to the consultant for completion of the exercise time and again wasting public money;
- v) Annual Business Plan of the Company was not prepared in violation of the Rule 7(2)(a) of Public Sector Corporate Governance Rules, 2013;
- vi) Board Secretariat failed to timely circulate the agenda items of meetings and minutes of 14 meetings were not got signed. Further, minutes of 117 meetings were approved after lapse of 19 days to 345 days.
- vii) Improper monitoring of project by the BoD the plausible reasons for escalation of cost of 28,000 meter 3L pre-coated pipe project from Rs 1,998.000 million to Rs 3,851.000 million could not be ascertained

resultantly BoD directed MD to investigate this slackness after 15 years (BoD meeting No. 576 dated July 30, 2022); and

- viii) Signed minutes of meeting were not timely circulated to relevant departments and thereby no implementation status was being maintained in Board secretariat.

Audit is of the view that the performance evaluation is a major part of measuring the efficiency of the board and it must be conducted in order to comply with the corporate governance rules.

The matter was reported to the management on February 19, 2024. The management vide its reply dated February 27, 2024 conceded to the point of view of Audit.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to take up the matter with PICG for performance evaluation of members of BoD in the light of directions of Ministry. No further progress was reported till finalization of the report.

Audit recommends to evaluate the performance of members of the Board and justification of inefficiencies besides fixing responsibility on the person(s) found at fault for inefficiencies / lapses pointed out by Audit.

[SAR/SSGC/4.5.3.1]

2.6.4.39 Irregular appointment of Company Secretary on permanent basis and double promotion

According to 9.4.4 of HR Policy Manual, Executives serving in a grade for at least three (03) years and having last three performance rating of A or B category, shall be eligible for participation in promotion process. Further, according to Clause 6.9.2 of HR Manual, employment offer from SSGC is subject to a positive background check of the candidate and his / her qualification and references. This includes, but is not limited to NADRA verification, Police verifications, past employee reference checks, educational documents verification, etc.

During Special Audit of SSGC for the FYs 2020-21 to 2022-23, it was observed that the Company Secretary was appointed without a competitive process, as the position was not advertised in the print media. The incumbent was initially given acting charge after the resignation of the previous Company

Secretary, and later regularized without following the proper procedure. The appointment matter was discussed in the 139th Board Human Resources & Nomination Committee meeting on July 21, 2023, where it was recommended to appoint a Grade-VII officer as Company Secretary in Grade-VIII on an interim basis. The audit revealed that the incumbent had been recently promoted to Grade-VII, and his promotion to Grade-VIII was considered a "double promotion," which violated the applicable rules. In addition, background clearance from police department was not sought. According to media reports, the incumbent Company Secretary allegedly committed fraud in a private company i.e., JS Global and was terminated on July 20, 2011 but the verification of this information was not done (Daily Express Tribune dated December 13, 2023).

Audit is of the view that BoD in the promotion ignored the provision of its HR Policy Manual.

The matter was reported to the management on February 19, 2024. The management in its reply dated February 27, 2024 stated that the decision to appoint permanent Company Secretary was taken by the BoD without advertisement. Audit contended that procedure adopted for the appointment and later on promotion of Company Secretary was against the HR Policy Manual.

The DAC in its meeting held on February 26 & 27, 2024 directed the management to get the stance of BoD verified regarding violation of basic rights by direct appointment without giving fair chance to eligible candidates. DAC further directed to take up the matter with PAC. No further progress was reported till finalization of the report.

The DAC in its meeting held on January 6 & 7, 2025 directed the management to recover the differential amount drawn as Company Secretary.

Audit recommends to refer the matter to Federal Government for necessary action on hiring of Company Secretary without competition.

[SAR/SSGC/4.5.3.2 & DP 3415]

Others

2.6.4.40 *Non-deposit of unclaimed dividend in Federal Government Account - Rs 285.430 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 followed by final notice to be published in two daily newspapers. If no claim is made before the company by the shareholders, the company shall deposit the unclaimed or unpaid amount to the credit of Federal Government.

During audit of SSGC for the FY 2023-24, it was observed that the management did not deposit unclaimed dividend of Rs 285.230 million in the Federal Government Account despite lapse of more than 03 years. This resulted in non-deposit of unclaimed dividend of Rs 285.430 million.

Audit is of the view that weak pursuance with competent fora led to non-deposit of unclaimed dividend in Federal Government Account.

The matter was reported to the management in September, 2024. In DAC meeting held on January 06 & 07, 2025, the management stated that no specific bank account had been notified by the SECP to deposit the unclaimed dividend in the Federal Government Account. Further, the amendments made to Section 244 through the Companies (Amendment) Ordinance, 2020, lapsed on August 27, 2020.

The DAC in its meeting held on January 06 & 07, 2025, directed the management to refer the matter to Petroleum Division for clarification. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter with competent fora and deposit the unclaimed amount to the Federal Government Account. Audit also recommends that Petroleum Division should take up the matter at the appropriate forum to resolve the long outstanding issue.

[DP No. 3371]

2.6.4.41 Non-finalization and non-submission of Annual Accounts resulting in violation of Company Act, 2017

According to Section 223 of Company Act, 2017, the board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements, made up to the date of close of financial year adopted by the company. The financial statements must be laid within a period of one hundred and twenty days following the close of financial year of a company provided that, in the case of a listed company, the Commission, and in any other case the registrar, may, for any special reason, extend the period for a term not exceeding thirty days.

During audit of SSGC for the FY 2023-24, it was observed that management failed to submit the annual audited accounts for the FYs 2022-23 & 2023-24 to the Securities and Exchange Commission of Pakistan within the prescribed date resulting in delay of more than one year in respect of FY 2022-23 and 4 month in case of FY 2023-24. Due to non-finalization of the accounts, the board was unable to lay company's financial statements in Annual General Meeting.

Audit is of the view that weak financial controls resulted non-presentation of financial statements to its stakeholders in time manner.

The matter was reported to the management in September, 2024. In DAC meeting held on January 06 & 07, 2025, management stated that the annual financial statement for the FY 2022-23 was authorized for issuance by the Board on November 5, 2024 and were approved in the Annual General Meeting held on November 29, 2024. The Statutory Auditor for the FY 2023-24 was appointed on November 29, 2024 and audit of financial statements for the FY 2023-24 was in progress.

The DAC in its meeting held on January 06 & 07, 2025, directed the management to get the stated stance verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to finalize annual besides fixing responsibility.

[DP No. 3367]

2.7 Other Organizations

This chapter includes paras in respect of ENAR Petrotech Services Private Ltd. (ENAR), Inter State Gas Systems Private Ltd. (ISGS), Pakistan LNG Limited (PLL), Saindak Metals Ltd. (SML) and Sui Southern Gas Company-LPG Ltd. (SLL).

2.7.1 ENAR Petrotech Services Private Ltd.

2.7.1.1(A) Introduction

ENAR was established in 1972 to provide services of Engineering, Procurement, Construction and Commissioning as a division of National Refinery Limited (NRL). In July, 1974 it was converted into a Private Ltd. company governed under the Companies Act, 1973. Since February, 2000, the State Engineering Corporation Private Ltd. holds 99.99% shares of the company, however, the Cabinet Division vide its memorandum dated December 23, 2019 decided to transfer the shareholding got the company to OGDCL, but the transfer of shares was still under process. It is working under the administrative control of the Petroleum Division.

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 of industrial sector. It also offers full spectrum of multi-disciplinary consulting services in mechanical, electrical, and process engineering.

(B) Financial Performance

The financial performance of the company for the last five years is as follows:

(Rs in million)					
Contents	2022-23	2021-22	2020-21	2019-20	2018-19
Net Revenue	80.657	94.058	146.564	117.638	141.559
Cost of Revenue	(101.272)	(124.189)	(112.329)	(110.383)	(111.545)
Gross Profit	(20.615)	(30.130)	34.236	7.255	30.014
Administrative Expenses	(24.501)	(29.968)	(27.299)	(26.623)	(27.323)
Operating Profit/(Loss)	(45.115)	(60.098)	6.937	(19.368)	2.690
Other income	2.498	2.812	2.867	3.341	3.209
Finance Cost	(0.385)	(0.986)	(1.406)	(1.893)	(2.515)

Profit/(Loss) before Tax	(43.003)	(58.272)	8.397	(17.920)	3.384
Taxation	(3.262)	(3.408)	(7.073)	(5.752)	(12.464)
Profit/(Loss) after tax	(46.265)	(61.680)	1.324	(23.672)	(9.080)

(Source: Annual Audited Financial Accounts)

2.7.1.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 48.467 million were raised in this report during the current audit of ENAR. This also includes recoverable amount of Rs 9.963 million as pointed out by Audit. Summary of the audit observations classified by nature is as follows:

Over view of Audit Observations

(Rs in millions)		
Sr. No.	Classification	Amount
1	Irregularities	-
A	Financial Management	37.663
2	Others	10.804
	Total	48.467

2.7.1.3 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
Total	77	34	43	44%

The overall compliance of PAC directives needs improvement.

2.7.1.4 Audit Paras

Financial Management

2.7.1.4.1 Irregular withdrawal of loan from Pension Fund for business purposes - Rs 27.700 million

According to Clause No.9 of Declaration of Trust Deed of ENAR, trustee may invest any moneys, hereby required to be invested for effecting and maintaining Pension Policies and in or upon such investments in the name of the Fund as they may think fit, provided the moneys are invested in such securities and financial institutions including banks, are payable both in respect of capital and interest in Pakistan. Provided that no moneys subject to the trusts thereof shall be invested in any stock shares debentures stock or debentures of any class of the Company or shall be advanced on loan to the Company whether by way of deposit or otherwise and whether with or without security.

During audit of ENAR for the FYs 2021-22 & 2022-23, it was observed that the management borrowed an amount of Rs 27.70 million from Pension Fund of the company during the period from November 08, 2017 to February 28, 2019 for the disbursement of Rs 2.610 million to pensioners whereas the detail of utilization of Rs 25.090 million was not provided. Moreover, there was a liability of Rs 15.496 million which was yet to be paid to the retired employees. This resulted in irregular withdrawal of loan from Pension Fund for business purposes amounting to Rs 27.700 million.

Audit is of the view that the company withdraw amount from the Pension Fund against the provision of Trust deed.

The matter was reported to the management in June, 2024. The management in its reply dated July 03, 2024 stated that company was being operated by managing its resources internally and no Government grant was received for its operations. The amount of Rs 27.700 million was borrowed as a loan from Pension Fund of the company on interest basis higher than the offered interest rate by commercial banks and the amount had been fully repaid along with interest. Audit contended that withdrawal from Pension Fund for disbursing it for loan purposes was against the Trust Deed and resulted in irregular withdrawal and disbursement from pension fund.

Audit recommends to probe the matter and initiate corrective action, besides provision of detailed record regarding utilization of remaining amount of Rs 25.090 million.

[DP No. 2855]

2.7.1.4.2 Non-recovery of outstanding amount - Rs 9.963 million

According to Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, “the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance.

During audit of ENAR for the FYs 2021-22 & 2022-23, it was observed that receivables of the company had accumulated to Rs 16.138 million as on June 30, 2023, despite the fact that core business of the company is the provision of the services relating to Engineering consultancy in different sectors of the company. This resulted in non-recovery of outstanding amount of Rs 16.138 million.

Audit is of the view that the main cause of default was delay in taking recovery action, as some receivables were pending since 2019. Consequently, the funds of the company were stuck-up and there was risk of conversion into bad debts with the passage of time.

The matter was reported to the management in June, 2024. The management in its reply dated July 03, 2024 stated that out of Rs 16.138 million, an amount of Rs 15.389 million had been recovered. Out of this recovered amount, Audit verified Rs 6.175 million leaving a balance of Rs 9.963 million.

Audit recommends that the balance amount be recovered at the earliest in order to minimize the risk of turning the outstanding receivables into bad debt, besides get the remaining verified from Audit.

[DP No. 2849]

2.7.1.4.3 Discrepancies in the financial reporting resulting in qualified opinion by external auditors

According to Section 220 of the Companies Act, 2017, every company shall prepare statements for every financial year which give a true and fair view of the state of the affairs of the company. Further, International Accounting

Standard 19 outlines how to account for employee benefits in the financial reporting of the company.

During audit of ENAR for the FYs 2021-22 & 2022-23, it was observed that the external auditors issued a qualified opinion regarding the company's Staff Pension Scheme, Staff Gratuity Scheme and Staff Provident Fund in its 2021-22 financial statements on the ground that these were not in line with the International Accounting Standard 19 requirements as the actuarial valuation had not been carried out as on June 30, 2022 and the shortfall as on that date could not be determined. According to the external auditors' report, there was a shortfall of Rs 209.452 million in Pension and Gratuity Funds while an amount of Rs 37.943 million of GP Funds was not transferred to the company. Audit observed that no further steps had been undertaken to address the basis of qualified opinion.

Audit is of the view that qualified opinion on the financial statements of the company showed that there were notable discrepancies regarding Staff Pension Scheme, Staff Gratuity Scheme and Staff Provident Fund of the organization. Such inconsistencies had a direct impact on the accuracy of the company's financial statements and reflected a lack of robust internal controls.

The matter was reported to the management in June, 2024. The management in its reply dated July 03, 2024 stated that due to financial position of the company could not record the liabilities on the accounts of these schemes. The matter was taken up with Petroleum Division and was requested for grant of Rs 300.000 million for payment of these liabilities.

Audit recommends to probe the matter to identify the root causes of the issues highlighted by the external auditors and initiate corrective action.

[DP Nos. 2851, 2852 & 2853]

Others

2.7.1.4.4 Unjustified payment of electricity charges due to defective agreement – Rs 10.804 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”.

During audit of ENAR for the FYs 2021-22 & 2022-23, it was observed that management rented ground floor on October 03, 2001 of a building owned by PERAC Research & Development Foundation (PRDF). According to Clause 2(b) of terms & conditions of the agreement, electricity bill of the whole building (ground and first floor) would be paid by the tenant. Hence, during the FYs 2021-22 & 2022-23, the company paid an amount of Rs 12.468 million on account of electricity bill. However, only Rs 1.664 million of electricity charges pertained to the ground floor, which was under use of the company whereas the remaining bill of Rs 10.804 million pertained to the first floor of the building which was in use of PRDF. This resulted in unjustified payment of electricity charges amounting to Rs 10.804 million.

Audit is of the view that weak financial management resulted in an unwarranted payment of Rs 10.804 million.

The matter was reported to the management in June, 2024. The management in its reply dated July 03, 2024 stated that the tenancy agreement was signed in 1997 between PERAC Research and Development Foundation (PRDF) and company. At that time these entities were subsidiaries of PERAC. The management had already highlighted the fact to the competent authority and company had discontinued the payment of PRDFs' electricity bill since June, 2022 till the finalization of matter by High Court or Ministry of Energy. Audit contended that at the change of ownership of EPSL, the matter should had been taken up with the owner of the building for modification of the agreement, but no corrective action was initiated by the company.

Audit recommends to pursue the case in the Court besides finding the way forward for recovery of excessive paid amount.

[DP No. 2848]

2.7.2 Inter State Gas Systems Private Ltd.

2.7.2.1(A) Introduction

Inter State Gas Systems Private Ltd. (ISGS) was established as a Private Limited Company on August 04, 1996 under Companies Ordinance 1984. The Company was formed as Joint Venture of Sui Northern Gas Pipelines Limited (SNGPL) and Sui Southern Gas Company Limited (SSGC) with a direct shareholding of 51% and 49% respectively. During the year 2011-12, the Companies issued shares to Government Holdings (Private) Limited (GHPL) and currently ISGS is a subsidiary of GHPL. The main objective of the company is to carry on the business of importing, processing, purifying, buying, storing, supplying, transporting, transmitting, selling and exporting natural gas and other natural gas products whether as such or in a liquid state, for lighting, heating, motive power, power generation or for any other purpose whatsoever. Current projects undertaken by the company are Iran-Pakistan (IP), Turkmenistan-Afghanistan -Pakistan - India (TAPI) gas pipeline and Pakistan Stream Gas Project.

(B) Financial Performance

The financial performance of the company for the year 2022-23 as compared to 2021-22 is as follows:

	2022-23	2021-22	(Rs in million) % age increase / (Decrease)
Revenue	-	-	
Administrative expenses	(445.946)	(440.448)	1.248
Operating loss	(445.946)	(440.448)	1.248
Impairment loss on capital work in progress	(278.668)	-	100
Other income	29.196	8.363	249.109
Finance cost on loan from parent company	(9.520)	(13.935)	(31.682)
Share of loss from joint venture-net of taxation	(35.433)	(50.211)	(29.431)
Loss before tax	740.371	496.231	49.199
Group taxation benefit	427.575	189.553	125.570
Loss after tax	(312.796)	(306.678)	

(Source: Annual Audited Accounts)

2.7.2.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 192.918 million were raised in this report during the current audit. Summary of the audit observations classified by nature is as follows:

(Rs in million)		
Sr. No.	Classification	Amount
1	Irregularities	-
A	Project Management Related Issues	192.918

2.7.2.3 Compliance with PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
2015-16	12	11	01	92
Total	12	11	01	92

The overall compliance of PAC directives needs to be improved.

2.7.2.4 Audit Paras

Project Management Related Issues

2.7.2.4.1 *Loss due to mismanagement in Machike-TaruJabba Oil Pipeline Project - Rs 192.918 million*

According to Section 23 (3)(a) of the OGRA Ordinance, 2002, “no person shall construct or operate any pipeline for oil unless a general or specific license to undertake such activity has been issued and is in full force and effect and the person is the licensee”.

During audit of ISGS for the FY 2022-23, it was observed that ECC on November 01, 2017 approved the Machike-TaruJabba Oil Pipeline project to be completed through ISGS. The ISGS incurred expenditure of Rs 192.918 million on account of consultancy services, tendering expenses, personnel cost, legal and professional services etc. without having OGRA license for transmission of white oil products. After tendering process, ISGS issued Letter of Intent (LOI) to M/s China Energy Construction International Investment Company for construction of pipeline project on BOOT basis and applied for grant of license to OGRA in March, 2018 which was rejected by OGRA in May 2019. Petroleum Division and ISGS could not pursue the case with OGRA for grant of license to enable ISGS to complete the project. This resulted in loss due to mismanagement in Machike-TaruJabba Oil Pipeline Project amounting to Rs 192.918 million.

Audit is of the view that mis-management of the project resulted in loss amounting to Rs 192.918 million.

The matter was reported to the management in May, 2024. The management in its reply dated May 27, 2024 stated that ISGS incurred the said expenses to fulfil the legal requirements of the project. ISGS further reported that OGRA issued license to M/s FOC and rejected ISGS’s license application. The reply was not tenable as the company failed to get license from OGRA.

The DAC in its meeting held on December 30, 2024 directed the management to provide the breakup of the expenditure of Rs 192.000 million incurred on the project besides identifying the person(s) responsible. No further progress was intimated till finalization of the report.

Audit recommends to probe the matter and fix the responsibility for initiating the project without obtaining OGRA license and causing loss to the national exchequer.

[DP No. 2869]

2.7.2.4.2 *Non-initiation of Iran-Pakistan Gas Pipeline Project resulting in potential risk of penalty*

According to Clause 7.1 of the GSPA between ISGS and National Iranian Oil Company (NIOC) “the buyer shall either take or pay for or if not taken, pay for a minimum quantity of natural gas”. Further, according to Clause 20.6.1 of GSPA, “in the event of the termination of this contract by the seller due to any seller termination event or any buyer default termination event, the seller shall be entitled to recover from the buyer the book value of the seller’s pipeline facilities at the time of termination”.

During audit of ISGS for the FY 2022-23, it was observed that ISGS being the designated company from Pakistani side was required to lay 781 Km pipeline from Iran boarder to district Shaheed Benazir Abad (Nawab Shah) before December 2014. According to agreement, either Pakistan had to buy the gas from January 1, 2015 or to pay the cost of Gas. ISGS obtained construction and operation License of Iran-Pakistan Gas Pipeline on January 29, 2019 from OGRA. However, no progress was made on the project despite lapse of four years. On February 27, 2019, NIOC served a notice of material breach of IP-GSPA obligations. Later on, Pakistan and Iran signed an amendment agreement No. 03 on September 05, 2019 giving both sides a further period of 5 years to complete the project. Petroleum Division on March 11, 2022 intimated that potential financial exposure i.e. “take or pay” obligation under GSPA would accumulate up to US\$ 18.589 Billion till 2024 equivalent to Rs 5.168 million and in case GSPA was terminated, ISGS would also be liable to pay the book value of seller’s pipeline facilities valuing US\$ 589.65 million. On December 21, 2023 ISGS again received a material breach notice from NIOC for taking all required actions within 180 days. The CCOE approved the summary of construction of 80 Km pipeline from Pak-Iran Boarder to Gwadar on February 23, 2024. ISGS was expecting to complete 80 Km pipeline till July, 2025. However, projected completion was beyond the extended period of 05 years.

Audit is of the view that due to defective project planning, management of ISGS failed to initiate the project in extended period which resulted in potential risk of penalty amounting to Rs 5,167,742 million.

The matter was reported to the management in May, 2024. The management in its reply dated May 27, 2024 stated that Iran served the termination notice, which was later on withdrawn and it was mutually agreed to extend the period for another term of five years. The risk of US\$ 18.589 Billion was calculated in the worst case scenario. Reply was not tenable as NIOC had served notices of material breach in 2019 and 2023. Further, five-year extended period was also expired but still project was not initiated.

The DAC in its meeting held on December 30, 2024 directed the management to pursue the matter with quarter concerned for early settlement of issue. No further progress was intimated till finalization of the report.

Audit recommends to complete the project within stipulated time and to avoid the potential risk of penalty and book value of seller's pipeline facilities.

[DP No. 2859]

2.7.2.4.3 Weak project management of PSGP and TAPI Gas pipeline projects

According to Section 7 of Chapter 3 of SOEs (Governance and Operations) Act, 2023, "the primary objectives of a state-owned enterprises shall be to operate in an efficient manner, achieving the objectives contained in, and acting in accordance with their respective Act or Articles and Memorandum of Association". Further, according to Section 4(1) of the GIDC Act, 2015, "the Cess shall be utilized by the Federal Government for or in connection with infrastructure development of Iran-Pakistan Pipeline Project (IP), Turkmenistan-Afghanistan-Pakistan-India (TAPI) Pipeline Project, LNG or other ancillary projects".

During audit of ISGS for the FY 2022-23, it was observed that being Government designated company for execution of projects funded from GIDC, ISGS could not achieve significant progress on PSGP and TAPI projects despite lapse of period ranging from 10 to 15 years. The Supreme Court of Pakistan, in its judgment dated August 13, 2020 directed the Federal Government to take all steps to commence work on the laying of the North-South pipeline within six months. In the light of SCP judgment, CCOE on October 15, 2020 directed

Petroleum Division to ensure the timelines of the project in accordance with the directions of SCP. However, no on-ground activity of the project was started till May 2024.

Audit is of the view that due to weak project management, physical progress regarding completion of strategic energy projects could not be made.

The matter was reported to the management in May, 2024. The management in its reply dated May 27, 2024 stated that PSGP project achieved significant progress, however, as TAPI Project traverses' multiple countries and the security situation in the region contributed in delay of the project. Finalization of the HGA, GTA and PSR were in process. Reply was not tenable as no physical progress on the projects has been made.

The DAC in its meeting held on December 30, 2024 directed the management to provide a comprehensive report on both the projects. No further progress was intimated till finalization of the report.

Audit recommends to take appropriate action for timely completion of projects.

[DP No. 2867]

2.7.3 Pakistan LNG Ltd.

2.7.3.1 (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 the Companies Act, 2017). The principal activity of the Company is to import, re-gasify Liquefied Natural Gas (LNG) and market, and distribute Re-gasified Liquid Natural Gas (RLNG). The company's head office is located at 9th floor, Petroleum House, Ataturk Avenue, G-5/2, Islamabad, Pakistan. Considering consumer demand requirements, the Company currently has a 15-year term contract with ENI for one cargo a month. The contract ensures a stable supply of LNG to meet consumer demands, specifically of K-Electric & SNGPL. Any further demand raised by downstream consumers is met through the spot LNG purchases from the international market. After formal approval of the merger by the GHPL BoD, the PLL Board of Directors in its 84th meeting dated December 08, 2020 formally passed the resolution for the amalgamation of PLTL with PLL being the surviving entity. The merger was effectuated on January 01, 2021.

(B) Financial Performance

(Rs in million)		
Particulars	2022-23	2021-22
Revenue	111,508.083	398,579.164
Cost of Sales	(98,817.035)	(375,316.679)
Gross Profit	12,691.048	23,262.486
Administrative Expenses	(767.822)	(510.868)
Other Income	1,585.583	429.557
Exchange Loss	(55,475.515)	(44,760.927)
Finance Cost	(7,648.414)	(6,320.355)
Profit / (Loss) before Tax	(49,615.120)	(27,900.108)
Taxation	11,670.529	6,163.461
Profit / (Loss) after Tax	(37,944.591)	(21,736.647)

(Source: Annual Audited Accounts)

2.7.3.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 136,670.166 million were raised in this report during the current audit. This also includes recoverable amount of

Rs 110,032.369 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	Irregularities	-
A	Financial Management	115,823.421
B	Contract Management	20,846.745
C	Corporate Governance Related Issues	-
	Total	136,670.166

2.7.3.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
2018-19	2	0	2	0
2020-21	6	4	2	67
2021-22	1	0	1	0
Total	9	4	5	44

2.7.3.4 Audit Paras

Financial Management

2.7.3.4.1 *Non-recovery of long outstanding dues from SNGPL - Rs 96,217.000 million*

According to Section 9.3 of the initialled GSPA, the buyer shall pay all bills, inclusive of Sales Tax and other applicable duties and levies, about gas consumption and monthly take or pay quantity delivered in terms of Section 9.1 of GSPA ibid within eight (8) days.

During audit of PLL for the FY 2022-23, it was observed that SNGPL did not make timely payments in respect of invoices raised by PLL on account of sale of RLNG. The impact of late payment received from SNGPL transformed into liquidity problem for PLL. The management was not able to take effective measures to reduce trade debts from SNGPL which caused long outstanding receivable amounting to Rs 96,217.000 million.

Audit is of view that weak financial management resulted in non-recovery of long outstanding dues.

The matter was reported to the management in March, 2024. The management in its reply dated July 03, 2024 stated that the receivable from SNGPL was part of energy sector's Circular Debt and the MoE was actively pursuing the matter for settlement. Further, the management of PLL had been in constant communication with SNGPL for clearance of outstanding receivables.

The DAC in its meeting held on December 30, 2024 directed the management to raise the level for recovery of outstanding dues from SNGPL. Moreover, the PAO should also be kept in the loop for this recovery. DAC further directed to get the recovered amount verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to recover the outstanding dues besides improving financial management.

Note: The issue was reported earlier also in the Audit Report, 2022-23 vide para No. 2.7.4.3 having financial impact of Rs 83,352.705 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2833]

2.7.3.4.2 Non recovery / adjustment of receivables from tax authorities - Rs 13,815.369 million

According to Para (ii) of General Order C.No.03(6)ST-L&P/2002 dated April 24, 2007, “taxpayer will submit an application for inter tax adjustment citing relevant particulars of the refund claim and the tax payable by him”.

During audit of PLL for the FY 2022-23, it was observed that certain amounts of from the tax authorities against the amount overpaid or unadjusted against the Income Tax and Sales Tax liabilities respectively were still pending with the tax authorities. However, the management of PLL failed to recover / adjust the receivables from tax authorities. This resulted in non-recovery / adjustment of Rs 13,815.369 million.

Audit is of the view that weak financial management resulted in non-recovery / adjustment of advance taxes.

The matter was reported to the management in March, 2024. The management in its reply dated July 03, 2024 stated that the amount related to sales tax and illegal tax recovery by tax authorities. FBR issued an amendment in SRO accordingly sales tax amount would be fully recovered within 2 to 3 years. Regarding income tax, Islamabad High Court had issued an order to FBR to return the amount to PLL. The matter was sub-judice in the Supreme Court and the next date was in office.

The DAC in its meeting held on December 30, 2024 directed the management to pursue the case vigorously. DAC further directed the management to take up the matter at higher level with FBR. No further progress was reported till finalization of the report.

Audit recommends to take prompt action to recover its receivable to safeguard the company from liquidity issues besides pursuing the court case.

[DP No. 2842]

2.7.3.4.3 Non-payment of outstanding balances of ITFC amounting to Rs 5,743.542 million

According to agreement of deferred financing facility between GoP and International Islamic Trade Finance Corporation (ITFC) dated April 22, 2019, PLL has been designated as an executing agency by the GoP. Under this agreement, payment to LNG suppliers is processed by ITFC, with PLL

processing the payment to SBP in the designated bank account in US dollar equivalent rupees.

During audit of PLL for the FY 2022-23, it was observed that PLL arranged payment to LNG suppliers under the agreement between GoP and ITFC. Later on, the outstanding balance of ITFC was cleared by PLL through payment to SBP in the designated bank account. The BoD was not able to devise a strategy to pay the outstanding balance in ITFC account. Resultantly, an amount of Rs 5,743.542 million was payable to GoP for the FY 2022-23.

Audit is of view that weak financial management resulted in outstanding balance payable to GoP under ITFC agreement.

The matter was reported to the management in March, 2024. The management in its reply dated July 03, 2024 stated that PLL had time and again communicated to SNGPL and Petroleum Division that clearance of receivables was necessary for PLL to clear outstanding GoP amounts on account of ITFC.

The DAC in its meeting held on December 30, 2024 directed the management to pursue the matter with SNGPL for recovery of outstanding amount and ultimate settlement of the issue. DAC further directed the management to get the payment verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter with SNGPL vigorously in compliance of DAC decision.

[DP No. 2840]

2.7.3.4.4 Loss due to delayed payments of interest - Rs 47.510 million

According to Rule 5(5) of the Corporate Governance Rules 2017, “the board shall establish a system of sound internal controls, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety”. Further, Rule 5(5)(a) of Rules ibid states that “the principle of probity and propriety entails that company’s assets and resources are not used for private advantage and due economy is exercised”.

During audit of PLL for the FY 2022-23, it was observed that the company paid huge amounts of interest as delayed payments on outstanding

loans which caused extra financial burden on the company. This showed that the management failed to discharge its financial obligations within stipulated time. This resulted in loss due to delayed payment of interest amounting to Rs 47.510 million.

Audit is of the view that management failed to discharge its financial obligations within the available financial resources. The amounts of borrowed loans from commercial banks put extra financial burden on company which was already sustaining loss annually.

The matter was reported to the management in March, 2024. The management in its reply dated July 03, 2024 stated that the ITFC facility arranged by GoP was made available to nominated entities on “as and when available” basis and the facility was not available for the entire financial year. In the event of delayed payment from SNGPL, PLL had lined up working capital facilities with commercial banks for the import of LNG cargoes. The LNG Margin of PLL was to cover such expenses along with reasonable returns for shareholders.

The DAC in its meeting held on December 30, 2024 directed the management to provide transaction-wise detail of loan and interest paid. No further progress was reported till finalization of the report.

Audit requires detailed record of loan and interest paid besides strengthening of financial controls.

[DP No. 2857]

Contract Management

2.7.3.4.5 Loss due to under-utilization of terminal capacity - Rs 14,245.370 million

According to Clause 9.3.1 of Operation and Services Agreement relating to the operations of LNG services Infrastructure and provision of LNG services for Pakistan LNG Terminal Limited LNG Project signed between PGPCCL and PLTL dated July 01, 2016, “daily delivery capacity is 600 MMCFD and peak daily capacity is 690 MMCFD”.

During audit of PLL for the FY 2022-23, it was observed that PLL utilized delivery capacity of 95,220 MMCFD during July, 2022 to June, 2023 at an average of 44% against available daily capacity of 600 MMCFD (216,000

MMCFD) of PGPCL regasification terminal. Despite that the company did not utilize the full delivery capacity of terminal. The company paid terminal charges for full capacity as per agreement between PGPCL and PLL. This resulted in loss of Rs 14,245.370 million.

Audit is of the view that due to weak terminal management, the company sustained loss.

The matter was reported to the management in March, 2024. The management in its reply dated July 03, 2024 stated that the average utilization rate of global LNG terminals stood at approximately 40-42%, while PLL had achieved a higher benchmark. The reply was not tenable as no evidence was provided.

The DAC in its meeting held on December 30, 2024 directed the management to pursue the matter with DG (LGs) to determine merit for LNG terminals and take necessary steps to rationalize the capacity charges. No further progress was reported till finalization of the report.

Audit recommends to take prompt action to plan the use of full capacity of PGPCL's terminal or revise the contract to safeguard the company from payment of extra terminal charges.

Note: The issue was reported earlier also in the Audit Reports, 2020-21, 2021-22 & 2022-23 vide para Nos 2.8.5.2, 2.7.4.5 & 2.7.4.8 having financial impact of Rs 11.364 million, Rs 2,563.366 million and Rs 5,574.329 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2841]

2.7.3.4.6 Non-imposition of penalty due to non-supply of cargo - Rs 6,601.375 million

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 30% of the contract price multiplied by the estimated contract quantity of the relevant cargo under a transaction”.

During audit of PLL for the FY 2022-23, it was observed that M/s ENI was bound to deliver 12 RLNG cargoes in a year (one cargo in one month) to PLL but supplied 07 cargoes in full quantity and 01 cargo in partial quantity during the FY 2022-23. However, the management did not impose penalty of 30% cargo value as required under the agreement. This resulted in non-imposition of penalty of Rs 6,601.375 million due to non-supply of cargoes, as detailed below:

(Rs in million)

Total value of one cargo	30% value of one cargo shipment	No. of Cargos not delivered	Penalty Imposable
A	B	C	C X B
5,501.146	1,650.343	4	6,601.375

Audit is of view that PLL management / BoD did not take timely action regarding imposition of penalty or withholding payment of long-term suppliers.

The matter was reported to the management in March, 2024. The management in its reply dated July 03, 2024 stated that considering the continued non-acceptance of rescheduling requests, PLL sought Board approval to engage an English law firm, Milbank LLP, to explore legal possibilities related to ENI's defaults. PLL had taken necessary actions within the contractual framework, as directed by the Board by engaging industry experts, lawyers, and investigators to address the issue of ENI's non-delivery of LNG cargoes.

The DAC in its meeting held on December 30, 2024 directed the management to finalize the decision for penalty on the supplier under intimation to Audit. No further progress was reported till finalization of the report.

Audit recommends to take prompt action to impose penalty on supplier and recover the amount at the earliest.

Note: The issue was reported earlier also in the Audit Reports, 2021-22 & 2022-23 vide para Nos 2.7.4.9 & 2.7.4.7 having financial impact of Rs 2,981.871 million and Rs 20,599.198 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2834]

Corporate Governance Related Issues

2.7.3.4.7 Irregular award of acting charge of the post of Managing Director

According to Rule 5(2) of the Public Sector Companies (Corporate Governance) Rules, 2013, “the Board shall evaluate the candidates based on the fit and proper criteria and the guidelines specified by the Commission for appointment to the position of the Chief Executive and recommend at least three candidates to the Government for its concurrence for appointment of one of them as Chief Executive of the public sector company, except where the Chief Executive is nominated by the Government. On receiving concurrence or nomination of the Government, as the case may be, the board shall appoint the Chief Executive in accordance with the provisions of the Ordinance. The board shall also be responsible for development and succession planning of the Chief Executive”. Further, according to Section 18(1) of State-Owned Enterprises (Governance and Operations) Act, 2023 the board, “shall appoint a Chief Executive Officer to the State-Owned Enterprise under a performance-based contract for a specified period”.

During audit of PLL for the FY 2022-23, it was observed that MD GHPL was appointed as acting MD of PLL with effect from September 17, 2020 until the appointment of a regular incumbent. The appointed officer was also a Non-Executive Director of PLL Board since 2019. Audit held that the Petroleum Division was not the appointing Authority of the MD of PLL, hence, appointment of acting MD by the Petroleum Division was irregular.

Audit is of the view that weak governance resulted in irregular appointment of acting managing director and use of Administrative and financial powers.

The matter was reported to the management in March, 2024. The management in its reply dated July 03, 2024 stated that according to law, the Federal Government was the appointing authority of MD and BoD can appoint Chief Executive on receiving concurrence or nomination by the Federal Government, so, the MD was appointed on acting charge by the Federal Government on September 17, 2020. Audit contended that MD was appointed on acting charge basis by the Petroleum Division without approval of the Federal Government/Cabinet Division.

The DAC in its meeting held on December 30, 2024 directed the management to take up the matter with Petroleum Division (CA Wing) for obtaining the approval of Federal Government regarding acting charge appointment of MD. DAC further, directed the Petroleum Division to justify the inaction as required under SOE Act, 2023 despite lapse of two years. No further progress was reported till finalization of the report.

Audit recommends taking up the matter with the Petroleum Division besides justification by the Petroleum Division for inaction as directed by the DAC.

[DP No. 2858]

2.7.4 Saindak Metals Private Ltd.

2.7.4.1(A) Introduction

Saindak Metals Private Ltd. (SML) was incorporated in Pakistan as a Private Limited Company on April 15, 1974 under the name of Resource Development Corporation Private Ltd. The name of the company was changed to Saindak Metals Private Ltd. on October 03, 1993. SML was converted into Public Limited Company on January 16, 1996. The registered office of the company is situated at Quetta and equity of the company is owned by GoP. The main objectives of the company are exploration, mining and metallurgical processing of copper, gold and other minerals located at Saindak in District Chagai, Balochistan.

SML leased its main plant to M/s MRDL of China for a period of ten years on lease contract dated November 30, 2001 and the plant was handed over to MRDL on October 2, 2002. According to addendum No. 4 dated March 10, 2022 the lease contract was extended up to October 31, 2037.

(B) Financial Performance

The working results of the company for the FY 2022-23 as compared to previous years are as under:

(Rs in million)				
Year	2023-24	2022-23	2021-22	2020-21
Income	3,349.46	4,751.54	6,593.240	2,791.18
Administrative and general expenses	875.73	889.18	410.791	397.851
Share of Government of Balochistan	973.35	1,528.54	2,597.763	1,028.500
Exchange loss	3.27		0	22.807
Other income	4,101.53	2,622.71	1,075.914	642.435
Profit / (loss) before Taxation	5,598.64	4,956.43	4,660.513	1,984.46
Taxation	2,131.20	562.77	2,223.838	604.445
Profit for the year / Profit after tax	3,467.31	4,393.66	2,436.674	1,380.01
Total Comprehensive Income	3,480.43	4,346.21	2,437.076	1,410.48

(Source: Annual Audited Accounts)

2.7.4.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 35,984.966 million were raised in this report during the current audit. This amount also includes recoverable of Rs 35,984.966 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	Irregularities	-
A	Financial Management	35,925.694
B	Contract Management	-
C	Others	59.272
	Total	35,984.966

2.7.4.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
2015-16	4	0	4	0
2016-17	1	0	1	0
Total	5	0	5	0%

The overall compliance of PAC directives needs improvement.

2.7.4.4 Audit Paras

Financial Management

2.7.4.4.1 *Non-payment of loan to Government of Pakistan - Rs 35,467.190 million*

According to Finance Division letter vide No F.I(31)C.F.III/99-Vol-II dated December 30, 2010, “SML was directed to deposit the amount of surplus available with the company in the Government Account before December 31, 2010 and GoP investment was converted into loan”. Further, vide Finance Division’s letter dated September 21, 2023, “it was directed by Finance Division to deposit principal and interest thereon as per amortization schedule”.

During audit of SML for the FYs 2022-23 and 2023-24, it was observed that the GoP invested Rs 29,230.000 million in SML up to FY 2010-11. SML paid Rs 8,000.000 million to GoP up to FY 2010-11 by reducing the GoP equity in their books of accounts. After Finance Division’s letter dated December 30, 2010, the financial statements of SML reflected Rs 2,123.53 million as GoP loan from the FY 2011-12 onwards but nothing was repaid despite that GoP had declared its investment as loan in 2010 rather SML continued to invest significant amounts in TDRs i.e. in FY 2010-11 an amount of Rs 4,456.510 million was invested which reached to Rs 21,294.050 million up to FY 2023-24. One of the directors in 164th Board meeting dated February 01, 2024 argued that the company had sufficient funds but neglected to discharge the liability on yearly basis. The amortization schedule issued by the Finance Division dated September 21, 2023 showed principal and interest outstanding amounts as on June 30, 2023 was Rs 32,333.094 million and annual instalment of Rs 3,134.105 million. This resulted in non-payment of Rs 35,467.190 million to GoP as on June 30, 2024.

Audit is of the view that due to poor financial management, SML failed to repay the loan to Government of Pakistan.

The matter was reported to the management in September 2024. The management in its reply dated November 20, 2024 stated that the BoD in its 164th meeting held on February 01, 2024 directed the management to take up the matter with the Federal Cabinet through ECC considering weak financial position of SML.

The DAC in its meeting held on January 10, 2025 directed the management to resolve all issues in consultation with Board and Petroleum Division within a period of two months and repay liabilities as per final decision. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC for payment of liabilities.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2018-19 vide audit comment No 2.7.5.2.7 having financial impact of Rs 15,733.53 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2903]

2.7.4.4.2 Short recovery of production rent and non-recovery of opportunity cost from MRDL - Rs 230.727 million

According to Clause 7.2 of the lease contract of Saindak Copper-Gold Project between SML and M/s MRDL dated November 30, 2001 “during the term of the lease contract after paying back the Lessee’s investment and interests, the Lessor will share 50% of surplus generated from the sales of the products. The payments will be made within one month after every year end, the financial report having been audited”. Further, as per Clause 8 of Addendum 4 of the above lease contract dated March 10, 2022, “in the event the payment of annual rent or the production rent is delayed, the Lessee shall bear and make good to the Lessor for the opportunity cost @ KIBOR + 5% till the time said payment is actually received by the Lessor along with currency exchange loss, if any, suffered by the Lessor during the said delay period”.

During audit of SML for the FYs 2022-23 and 2023-24, it was observed that the financial report of MRDL for the period from January to December, 2022 was audited and signed on March 21, 2023 and the 50% share of production rent was due up to April 20, 2023 but share of SML US\$ 15.683 million equivalent to Rs 4,477.407 million was received on May 19, 2023 which was 29 days late. However, SML failed to recover the opportunity cost amounting to Rs 104.332 million. Further, production rent of US\$ 454,659 equivalent to Rs 126.395 million for the year ended on December 31, 2022 was also not paid by M/s MRDL. This resulted into short recovery of production rent

and non-recovery of opportunity cost aggregating to Rs 230.727 million from MRDL.

Audit is of the view that due to weak financial controls, SML failed to get its due share of production rent and opportunity cost from MRDL.

The matter was reported to the management in September 2024. The management in its reply dated November 20, 2024 stated that the issue was taken up with M/s MRDL multiple times through formal letters and meetings but the outstanding amount still remained unpaid.

The DAC in its meeting held on January 10, 2025 directed the management to pursue the recovery. No further progress was reported till finalization of the report.

Audit recommends to expedite the pursuance with MRDL for recovery of production rent and opportunity cost.

[DP No. 2898]

2.7.4.4.3 Blockage of funds and loss of revenue - Rs 151.088 million

According to Clause 4.1 of tri-partite agreement between Saindak Metals Limited, M/s MRDL and Pakistan Steel Corporation Private Ltd. dated January 31, 2008, “the Ex-Saindak price of Saindak Iron Concentrate will be US\$ 52 per M.T only inclusive of all government taxes including sales tax @ 15%”. Further, according to Clause 4.2 of the agreement *ibid*, “the above price is valid for a period of two years, effective from the date of signing of contract. Thereafter, the price shall be enhanced up to 15% on cost of Iron Concentrate for another two years for which negotiations in good faith shall be held between the parties”.

During audit of SML for the FYs 2022-23 and 2023-24, it was observed that a quantity of 4,597.05 MT of iron concentrate was lying at Saindak Project since 2013 which showed that no steps were taken by the management for sale of this inventory valuing Rs 52.927 million (53% share of SML). Further, SML sold 05 consignments of iron concentrate to Pakistan Steel during the period from 2008 to 2013 at lower rates instead of selling the same at the rates fixed in the contract causing loss of Rs 98.161 million to SML (50% share). This resulted into blockage of funds and loss of revenue amounting to Rs 151.088 million.

Audit is of the view that weak inventory and financial management resulted in blockage of funds and loss of revenue.

The matter was reported to the management in September 2024. The management in its reply dated November 20, 2024 stated that the inventory of 4,597 MT was insufficient and could not be sold to the customers located in Karachi or Lahore considering the transportation cost. Further, out of 5 consignments, only 2 consignments were sold at lower price due to decline in price of iron concentrate internationally. The reply of management was not tenable because as per provided record, all the 5 consignments were sold at lower than the agreed price.

The DAC in its meeting held on January 10, 2025 directed the management to conduct fact-finding inquiry to identify the reasons for sale at less than agreement price and share the plan for utilization of iron concentrate with Audit within three months. No further progress was reported till finalization of the report.

Audit recommends to explore the potential market to sell the stock besides fixing the responsibility on the person at fault for selling iron concentrate at lower price.

[DP Nos. 2906 & 2909]

2.7.4.4.4 Payment of default surcharge due to non-deposit of quarterly advance tax - Rs 76.689 million

According to Section 205(1A) of Income Tax Ordinance, 2001 “a person who fails to pay advance tax under Section 147, shall be liable for default surcharge at a rate equal to twelve percent or KIBOR plus three percent per annum, whichever is higher on the amount of tax unpaid computed for the period commencing on the date on which it was due and ending on the date on which it was paid or date on which the return of income for the relevant tax year was due, whichever is earlier”.

During audit of SML for the FYs 2022-23 and 2023-24, it was observed that company failed to pay the tax within due dates. The Inland Revenue Zone-1 RTO, Quetta issued order dated May 16, 2023 containing the calculation of default surcharge for the tax year 2022. SML filed an appeal before the Commissioner Inland Revenue (Appeals) Quetta who confirmed the order passed

by DCIRS vide order dated July 07, 2023. The company filed another appeal before Appellate Tribunal Inland Revenue, Karachi which was also rejected vide orders dated November 21, 2023 and FBR collected the default surcharge for all quarters of tax year 2022 through attachment of bank accounts. SML hired a Tax Consultant and a Senior Law Officer of Grade-IX to monitor tax affairs, even then the company had to pay default surcharge. This resulted in payment of default surcharge due to non-deposit of quarterly advance tax amounting to Rs 76.689 million.

Audit is of the view that weak financial controls resulted in payment of default surcharge.

The matter was reported to the management in September, 2024. The management in its reply dated November 20, 2024 stated that the delay in the deposit of advance tax stemmed from administrative oversight, exacerbated by the evolving interpretation of tax regulations at that time.

The DAC in its meeting held on January 10, 2025 directed the management to initiate disciplinary proceedings against the responsible person(s). No further progress was reported till finalization of the report.

Audit recommends to probe the matter and taking action against person(s) at fault in compliance of DAC decision.

[DP No. 2902]

Contract Management

2.7.4.4.5 Unauthorized change in method of sampling by Lessee without consent of Saindak Metals Limited (SML)

According to Clause 9.2 of the of the lease contract of Saindak Copper-Gold Project between SML and MRDL dated November 30,2001, “the lessee shall sell the products in accordance with generally accepted international business practices at best available prices and on the terms, compatible with the prevailing world market condition and the Lessee shall inform Lessor of the modus operandi of its sales procedures. Lessee shall not enter into any contract for sale of the Products for a term not in excess of 03 years without proper approval of the Lessor”. Further, according to Clause 15 inserted vide addendum 4 of the above lease contract effective from November 01, 2022, “the Lessee

shall share its standard operating procedures (SOPs) for product sampling, analysis and marketing etc with the Lessor”.

During audit of SML for FYs 2022-23 and 2023-24, it was observed that in 2017, MRDL unilaterally changed the method for sampling of blister copper for chemical analysis from the American ASTM system to the Chinese JCC system without obtaining SML’s consent. This change led to a significant reduction of 44% in the gold content produced from blister copper during 2017 to 2023 as compared to the previous seven years (2010-2016). To ascertain which sampling method was more profitable, SML held 16 samples from consignment of 2015, 2016 and 2017 but these samples were yet to be sent for testing. Furthermore, SML management objected to this change of sampling method vide letter dated September 14, 2018 but the issue remained unresolved despite addendum in the lease contract on November 01, 2022. Change of method of sampling by MRDL without permission resulted in loss of Rs 27.400 Billion (Approx) as SML share.

Audit is of the view that the change in sampling procedures by MRDL without SML's consent constituted a breach of the lease agreement. Despite the severity of this issue, no concrete remedial measures were taken by SML management to address the unauthorized adoption of sampling system.

The matter was reported to the management in September, 2024. The management in its reply date November 20, 2024 stated that results from both methods were compared and reduction of gold contents as supported by SGS was found, however, samples were extracted for an independent analysis of both methods and the findings would be shared accordingly.

The DAC in its meeting held on January 10, 2025 directed the management to pursue the matter at Petroleum Division level. No further progress was reported till finalization of the report.

Audit recommends to resolve the issue without further delay.

[DP No. 2913]

Others

2.7.4.4.6 *Undue payment and non-imposition of liquidated damages due to delayed completion of rail track - Rs 30.799 million*

M/s Resource Development Construction Private Ltd. (now SML) and M/s Railway Constructions Pakistan Ltd (RAILCOP) entered into an agreement of construction of a 35 km railway track including surveying, designing from Kohi-Taftan Railway Station to the Project area in Saindak on 22nd November, 1990. The work was to be completed within 12 months from the date of signing of the contract. Further, as per Clause 8.01 of the contract, in case of non-completion of work stipulated period or if the contractor leaves or abandons or leaves the work incomplete, a penalty of Rs 10,000 per day subject to a maximum of 10% of the contract amount besides liquidated damages @ 2% of the cost of the work of the contract, shall be imposed on the contractor.

During audit of SML for the FYs 2022-23 and 2023-24, it was observed that as per agreement, the work of laying rail track was to be completed up to November 21, 1992 by the RAILCOP but was delayed by 962 days for which penalty of Rs 9.620 million (@ Rs 10,000/day) and liquidated damages @ 2% of the cost of the work amounting to Rs 4.560 million was not imposed on the contractor by SML. Further, the departmental charges of Lahore Office and establishment charges of Rs 16.619 million were also charged by RAILCOP which were not covered under the agreement and were also objected by SML. This resulted in undue payment of establishment charges and non-imposition of liquidated damages due to delayed completion of rail track amounting to Rs 30.799 million.

Audit is of the view that weak financial management resulted in undue charging of establishment charges by the RAILCOP and non-imposition of liquidated damages due to delayed completion of rail track.

The matter was reported to the management in September, 2024. The management in its reply dated November 20, 2024 stated that the project was shut down by the GoP in 1995 and all the operations were halted and 1100 employees were fired during 2001. Consequently, the Project was leased out to MRDL in 2001 and the issue was beyond the control of current management due to shifting the overall management to MRDL.

The DAC in its meeting held on January 10, 2025 directed the management to provide a detailed reply supported with evidence to Audit. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter with RAILCOP for recovery of amount pointed out.

[DP No. 2914]

2.7.4.4.7 Loss due to theft of rail track – Rs 28.473 million

According to Clause 19.3 of the lease contract between SML and M/s MRDL dated November 30, 2001, “in case that the Assets and Premises are damaged by Lessee and / or its employees, Lessee shall be responsible to repair the damage by itself at its own cost and expense and Lessor shall have no responsibility or liability in this regard”.

During audit of SML for the FYs 2022-23 and 2023-24, it was observed that out of 29.852 km rail track which was constructed for Rs 228 million, a quantity of 3.728 km was missing having a value of Rs 28.473 million (@ Rs 7.638 million per km) for which an FIR was also lodged against unknown persons. Moreover, a length of 6.245 km was dismantled and 19.879 km was found damaged which was also loss to the national exchequer. However, SML failed to get the loss recovered from the lessee in compliance of clause 19.3 of the contract. This resulted in loss of Rs 28.473 million due to theft of rail track.

Audit is of the view that due to weak contract management, SML failed to recover the loss from the MRDL.

The matter was reported to the management in September 2024. The management in its reply dated November 20, 2024 stated that the matter was taken up with lessee on May 29, 2023 and September 05, 2023 regarding restoration of missing railway track but the lessee did not respond. Further, the matter was also reported to SML BoD and Audit.

The DAC in its meeting held on January 10, 2025 directed the management to recover the loss. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC regarding recovery of loss.

[DP No. 2905]

2.7.4.4.8 Cancellation of prospecting license of Dasht-e-Kain due to inefficiency at field by the Saindak Metals Limited

According to Rule 90 of Balochistan Mineral Rules, 2002, “Mining Concession holder shall carry out mining operations in a proper skilful and workman like manner over the granted concession. If at any time it is found on inspection that concession holder is not conforming to provisions of Prospecting /Exploitation Scheme or has not been able to utilize the entire allotted area or has kept the allotted areas idle for years together continuously, the Licensing Authority shall take action for cancellation of the unworked/un-utilized area and grant the same under the provisions of these rules.

During audit of SML for the FYs 2022-23 and 2023-24, it was observed that the DG (Mine & Minerals) Balochistan issued Prospecting License (PL) to SML situated near Dasht-e-Kain, district Chaghi on January 18, 2007 for a period of two years. However, as per DG Mines & Minerals inspection dated December 14, 2009, the site was kept idle by SML and a show-cause notice was issued to the company on January 06, 2010. The DG Mines & Minerals cancelled the said license on April 19, 2010 due to non-response from SML. Against this cancellation, SML filed an appeal before the Appellate Authority on August 25, 2010 which was rejected. Again, SML filed a petition before the Honourable High Court of Balochistan and the Learned Court set aside the order of the Appellate Authority and remanded back the case to Appellate Authority for de-novo proceedings. Finally, on November 01, 2023, Secretary Minerals and Mines, Balochistan dismissed the appeal of SML arguing that the company could not apply for Mining Lease within the prescribed time and also failed to reply the show-cause notice. This resulted into cancellation of prospecting license of Dasht-e-Kain due to inefficiency at field by the Saindak Metals Limited.

Audit is of the view that non-activity of SML at field, non-application of conversion of provisional license to mining license and poor follow-up of the matter with appropriate forum resulted in cancellation of license.

The matter was reported to the management in September 2024. The management in its reply dated November 20, 2024 stated that the visit conducted by the DG Mines occurred without prior coordination of SML and cancellation of provisional license was both legally and procedurally flawed. Audit contended

that the management failed to prove that the site was not kept idle and work was done on the field.

The DAC in its meeting held on January 10, 2025 directed the management to take up the matter with the GoB through Petroleum Division. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter with the GoB in the light of DAC decision.

[DP No. 2915]

2.7.4.4.9 Non-achievement of objectives by SML

According to Section 7 (1) of State-Owned Enterprises (Governance and Operation) Act, 2023, “the primary objective of a state-owned enterprise shall be to operate in an efficient manner, achieving the objectives contained in, and acting in accordance with their respective Acts or article and memorandum of association, as the case may be”.

During audit of SML for the FYs 2022-23 and 2023-24, it was observed that SML was incorporated on April 15, 1974 under the Companies Act 1913 with equity owned by the GoP. The company was formed for exploration, mining and metallurgical processing of copper, gold and other minerals at Saindak in Balochistan. However, the company suffered loss continuously from 1995 to 2003 and the Project was leased out by the ECC of Cabinet on July 28, 1998 to M/s MRDL for a period of 10 years from November 30, 2001 on profit sharing basis and the lease was extended up to October 31, 2037 through 04 addendums. Since 2001, SML had been performing monitoring function of the project only and failed to introduce any new investment ventures despite rich mineral resources available in Balochistan. Even though, prospecting license of Dasht-e-Kaien was cancelled by GoB due to non-activity by SML. Similarly, Durbancha exploration license was also expired in 2015 and award of mining license was still awaited from GoB. So, the company had been relying solely on production rent and lease rent received besides return on short-term investment for the last 23 years and human resources of the company were not being utilized efficiently and effectively. Further, the major expense of the payment of salaries and wages to employees was Rs 551.352 million during the FY 2023-24 without having its business plan to achieve its core objectives. This resulted in non-achievement of strategic objectives raising concern about operational efficiency.

Audit is of the view that due to poor internal controls, the company failed to achieve its core objectives.

The matter was reported to the management in September, 2024. The management in its reply dated November 20, 2024 stated that the company had actively pursued opportunities in exploration and mining, including applications for various licenses such as Dasht-e-Kien, EL202, Durbancha and the Afghanistan Gold Project. Unfortunately, several of these licenses were recently cancelled, hindering the efforts to expand the operational footprint. Further, SML had recently established a comprehensive business plan aimed at revamping our approach to exploration and investment in the mining sector.

The DAC in its meeting held on January 10, 2025 directed the management to provide a comprehensive plan to achieve its objectives within shortest time. No further progress was reported till finalization of the report.

Audit recommends to provide the status of implementation of the business plan.

[DP No. 2917]

2.7.4.4.10 Non-establishment of chemical laboratory

BoD of SML, in its meeting No.153 held on June 30, 2021 vide agenda item 14, approved the establishment of chemical analysis laboratory at Saindak for cross-checking the samples / analysis of MRDL and SML's own samples and the procurement of equipment as recommended by the Technical Committee by approving space for the laboratory with a budget of Rs 73.886 million and manpower of 9 employees.

During audit of SML for the FYs 2022-23 and 2023-24, it was observed that BoD vide agenda item No.07 of its 161st meeting held on October 27, 2023 approved Rs 141.133 million as revised estimate as cost of laboratory construction. The matter was still in progress despite lapse of a considerable time period of 03 years. SML was not having its own laboratory at project site due to which the management was unable to test the samples by its own experts. This resulted into non-establishment of Chemical Laboratory at project site of Saindak.

Audit is of the view that weak managerial controls resulted in non-establishment of chemical laboratory at project site of Saindak.

The matter was reported to the management in September 2024. The management in its reply dated November 20, 2024 stated that the BoD approved an amount of Rs 141.133 million for construction of laboratory building including civil work, electrical work, plumbing work and other charges. Audit contended that the management failed to construct chemical laboratory despite lapse of a considerable time period.

The DAC in its meeting held on January 10, 2025 directed the management to establish the laboratory as early as possible in order to comply with the direction of the BoD. No further progress was reported till finalization of the report.

Audit recommends implementation of BoD decision and ensure establishment of Laboratory.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2023-24 vide para number 2.7.4.2. Recurrence of same irregularity is a matter of serious concern

[DP No. 2918]

2.7.5 Sui Southern Gas Company – LPG Ltd.

2.7.5.1(A) Introduction

SSGC LPG Limited (SLL) is 100% owned subsidiary of SSGC and engaged in LPG marketing and distribution across the country. Supply chain of the company extends from allocation from local producers and a fully owned import terminal at Port Qasim to supply consumer retail packs of LPG. Activities of the company start from the import of LPG extended to the storage, bottling, distribution and marketing of LPG both in bulk tanks and cylinders.

SLL has its main office in Karachi, regional offices at Islamabad, Lahore and a terminal office at Port Qasim, Karachi. Regional Distribution Centres are located in Haripur near Islamabad and Lahore. At present, the company has 109 qualified and experienced employees from the LPG industry and over 160 dealers nationwide.

2.7.5.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 2,709.2245 million were raised in this report during the current audit. This amount also includes recoverable amount of Rs 2,553.323 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	Irregularities	-
A	Receivables / Financial Management	105.065
B	Procurement Related Issues	29.201
C	HR / Employee Related Irregularities	-
D	Board Related Issues	-
E	Tax Related Matters	2,518.588
F	Others	56.370
	Total	2,709.224

2.7.5.3 Audit Paras

Receivables / Financial Management

2.7.5.3.1 Non-recovery from various customers – Rs 34.735 million

According to Rule 4(3) of Public Sector Companies (Corporate Governance) Rules, 2013, “the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include the implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.”

During audit of SLL for the FYs 2022-23 & 2023-24, it was observed that receivables of the company were piled up to Rs 34.735 million as on June 30, 2024, out of which Rs 32.744 million pertained to one buyer M/s Ayan Energy Limited. The core business of the company was to supply LPG to various local customers on cash payment basis and accumulation of huge amount as receivables revealed the ineffective recovery mechanism. This resulted into non-recovery from various customers amounting to Rs 34.735 million.

Audit is of the view that the management has failed to recover the outstanding amount from various contractors on time and with the passage of time, the amount may be converted into bad debts, causing loss to the Company.

The matter was reported to the management in November, 2024. The management in its reply dated January 08, 2025 stated that out of Rs 34.735 million, Rs 4.060 million had been recovered, while Rs 32.744 million was outstanding against of M/s Ayan Energy and was secured against LPG product of 171 MT hold at SSL PQA Plant. The remaining amount was secured against realizable securities.

The DAC in its meeting held on January 8, 2025 directed the management to recover the amount and get it verified from Audit within two months. DAC further directed to take up the matter with M/s Ayan Energy for up to date extra storage charges. No further progress was reported till finalization of the report.

Audit recommends to recover the outstanding amount from the parties along with recovery of storage charges of LPG from M/s Ayan Energy.

[DP No. 3496]

2.7.5.3.2 *Unjustified transfer of funds pertaining to M/s KK Gas to another distributor's accounts - Rs 62.130 million*

According to Clause 5(5) of Public Sector Companies (Corporate Governance) Rules, 2013 as amended dated July 01, 2019- “the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders”.

During audit of SLL for the FYs 2022-23 & 2023-24, it was observed that the management made adjustment / transferred Rs 62.130 million of security deposit of M/s KK Gas on its request into the account of M/s Shinwari Gas Agency. SLL must not have acceded to such void request of M/s KK Gas. This resulted into illegal direct transfer of funds pertaining to M/s KK Gas to another distributor's accounts amounting to Rs 62.130 million.

Audit is of the view that transfer of funds directly without valid description was illegal as huge funds worth Rs 62.130 million were transferred into another distributor's accounts without justification.

The matter was reported to the management in December, 2024. The management in its reply dated January 08, 2025 stated that it was advance amount of M/s KK Gas which was transferred to M/s Shinwari Gas on the request of M/s KK Gas.

The DAC in its meeting held on January 8, 2025 directed the management to get guidance from FBR on the matter. DAC further directed the management to avoid such lapses in future. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC regarding referral of the matter to FBR as funds pertaining to M/s KK Gas were transferred to M/s Shinwari Account unauthorisedly, which would affect the accounts of both parties for the purpose of their tax liability.

[DP No. 3495]

2.7.5.3.3 *Illegal payment to law firm for getting the status of manufacturer - Rs 8.200 million*

According to Para 5.1(l) of Code of Conduct of SLL, no employee shall lend money to, or borrow money from, or place him / herself under any pecuniary obligation, to any person with whom he has any official dealings, provided that nothing in this behalf shall apply to authorised dealings under letter on behalf of the company in the ordinary course of business with a company or a firm of standing. If an employee has violated these rules, he shall forthwith declare the circumstances to his / her functional head.

During audit of SLL for the FYs 2022-23 & 2023-24, it was observed that the management engaged a Law Firm M/s FAKM Law Associates for pursuing the legal matters and made an advance payment of Rs 0.089 million on November 21, 2022 against a case relating to conversion of the Company's status as 'manufacturer'. However, as per subsequent inquiry report, the then CFO and CM Risk Management encashed a cheque of Rs 8.200 million issued by Khyber Gas Agency, on the promise of future discounts and transferred the amount to the Law Firm as remaining fee. Further, as per inquiry report, this occurred on the directions of the then MD and no transaction of paid amount of Rs 8.200 million was appearing in the books of account. It was also noted that the MD was removed on the case of harassment and the incident was also called for registration of criminal case, however, the Board did not register the criminal case for the reasons best known to the Board.

Audit is of the view that the management was involved in the illegal payment of Rs 8.200 million to a Law Firm for getting the "manufacturer" status for the company.

The matter was reported to the management in November, 2024. The management in its reply dated January 08, 2025 stated that after finalization of internal enquiry, the necessary action was taken and the relevant officers were ceased to hold the office.

The DAC in its meeting held on January 8, 2025 directed the management to consider criminal proceedings against the culprits. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC regarding referral of the matter for criminal proceedings against the culprits.

[DP No. 3486]

Procurement Related Issues

2.7.5.3.4 Loss due to payment of demurrages – Rs 17.120 million

According to Section 5(5)(a) of Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety, objectivity, integrity and honesty and relationship with the stakeholders. 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.

During audit of SLL for the FYs 2022-23 & 2023-24, it was observed that the management failed to comply with the specified timelines of unloading of vessel of LPG against Tender No. SLL/758 and paid demurrages to the supplier. This resulted in loss of Rs 17.119 million due to payment of demurrages.

Audit is of the view that poor planning by the management resulted in payment of demurrages causing loss to the company.

The matter was reported to the management in November, 2024. The management in its reply dated January 08, 2025 stated that overall storage capacity of SLL was 6,500 MT and due to non-availability of space, the ship was not cleared till the availability of space in the storage tank. As the company had agreement with the supplier for demurrages on per day basis in case of delayed unloading therefore, the demurrages were paid accordingly.

The DAC in its meeting held on January 8, 2025 directed the management to submit detailed reply justifying late unloading of vessel. No further progress was reported till finalization of the report.

Audit recommends submitting justification for delayed unloading of vessel as per DAC directives for further verification of facts.

[DP No. 3476]

2.7.5.3.5 Non-obtaining the performance guarantees and non-recovery of LOC cancellation charges – Rs 6.373 million

According to Clause 21.1 of bidding documents, “in case the supplier fails to supply / ship the goods within the stipulated period, the company has the right to make an alternative arrangement for the purchase of the goods on such terms as may be offered. In such event, all losses, cost and charges sustained / incurred by the company on stated purchase shall be recovered from the supplier without prejudice to any other right or remedy available to the company which includes recovery of losses sustained by the company from any due payment of the said supplier.” Further, according to Rule 39 of PPRA Rules, 2004 “Where needed and clearly expressed in the bidding documents, the procuring agency shall require the successful bidder to furnish a performance guarantee which shall not exceed ten per cent of the contract amount.

During audit of SLL for the FYs 2022-23 & 2023-24, it was observed that management issued LOI in favour of M/s Golden Core Trading for supply of 1,800 MT LPG and a Letter of Credit was opened accordingly. The supplier failed to supply the cargo as a result of which an amount of Rs 6.373 million was charged to SLL as LOC cancellation charges and the management failed to recover the amount from the contractor. Similarly, the management procured LPG through foreign tenders on CFR basis. The management issued Foreign Purchase Order despite non-submission of Performance Bond by the bidder. In case of possible withdrawal of bid by the bidder, the management could not claim any loss from the supplier in absence of Performance Bond. This resulted in non-obtaining the performance guarantees and non-recovery of LOC cancellation charges of Rs 6.373 million.

Audit is of the view that in the absence of performance guarantees, the management could not recover Letter of Credit cancellation charges and penalize the supplier if they failed to comply with the terms and conditions of the contract.

The matter was reported to the management on November, 2024. The management in its reply January 08, 2025 stated that in this particular case of M/s Golden Core, management was confident after the negotiation with the supplier and opened the Letter of Credit, however, unfortunately the supplier did not perform and the cost of Letter of Credit cancellation had to be borne by SLL.

The management further stated that performance bond was not required unless explicitly requested, as it was not a standard international market practice. Suppliers were not obligated to submit the bond unless SLL requests it.

The DAC in its meeting held on January 8, 2025 directed the management to recover the amount in the instant case. DAC further, directed the management to submit revised reply regarding justification for not requiring performance bond. No further progress was reported till finalization of the report.

Audit recommends to recover the amount from the supplier and obtain performance bond.

[DP Nos. 3490 & 3508]

2.7.5.3.6 *Mis-procurement due to acceptance of higher rates - Rs 5.708 million*

According to Rule 4 of PPRA, 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”. Further, according to Rule 36(b)(ix) of the Rules *ibid*, the bid found to be the most advantageous bid shall be accepted.”

During audit of SLL for the FYs 2022-23 & 2023-24, it was observed that management awarded the contract to M/s K.K Gas for Muzaffargarh @ Rs 1200 per MT for cylinder filling at much higher rate despite that M/s J.S Private Ltd. offered this service @ Rs 685 per MT for Multan whereas, the license of M/s K.K Gas was only for Multan plant. Further, no comparative statement showing offered rates was prepared by the management and the advertisement and bidding documents did not mention station-wise bid evaluation. Therefore, the whole process of procurement was defective. This resulted into mis-procurement due to acceptance of higher quoted rates amounting to Rs 5.708 million.

Audit is of the view that due to weak procurement management, the event of mis-procurement happened.

The matter was reported to the management in November, 2024. The management in its reply dated January 08, 2025 stated that the LPG hospitality

tender was floated based on regions as defined by the user department, ensuring selection on the basis of the most advantageous option. As per the tender documents, M/s. K.K Gas was located in Muzaffargarh (Multan), while M/s. J.S Private Ltd. was located in Multan. SLL issued Work Orders for both regions to the respective entities to M/s K.K Gas and M/s J.S Private Ltd. ensuring compliance with tender guidelines.

The DAC in its meeting held on January 8, 2025 directed the management to conduct fact-finding inquiry, fix the responsibility and share report to Audit within two months. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides sharing the inquiry report with Audit.

[DP No. 3492]

HR / Employee Related Irregularities

2.7.5.3.7 Irregular appointment and extension of MD

According to Rule of 5(5a) of Public Sector Companies (Corporate Governance) Rules, 2013, “the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company (c) ii. the principle of relationship with stakeholders requires the following, namely, ensuring equality of opportunity by establishing open and fair procedures for making appointments and for determining terms and conditions of service.”

During audit of SLL for the FYs 2022-23 & 2023-24, it was observed that GM-In charge (Finance & Accounts), joined the Holding Company on November 01, 2004 and retired on July 18, 2024, after attaining the age of superannuation i.e. 60 years. Just before retirement, the incumbent was assigned the acting charge of MD in the SSGC-LPG on June 10, 2024. In this regard, following irregularities were observed that incumbent was in Grade-VIII, working as GM in SSGC but was assigned the acting charge of MD, which was a post of Grade-X. The incumbent retired on July 18, 2024 but was still asked to continue as MD of the SSGC-LPG, till the appointment of regular MD without approval of Secretary Petroleum for this ad-hoc appointment. As per previous advertisement published for hiring of regular MD, the maximum age was set at

55 years. The incumbent was appointed as acting MD who was just about to retire and continued after retirement. The previous MD, was removed by the Board in its meeting dated May 03, 2024 but till the close of audit, the process of appointment of MD was not started at all.

Audit is of the view that appointment and subsequent continuing of acting charge of MD, even after retirement from the Holding Company reflected lack of merit. The Board was also delaying the process of appointing a regular MD, which clearly showed that the incumbent acting MD was being given undue favour, in violation of rules and regulations.

The matter was reported to the management in November, 2024. The management in its reply dated January 08, 2025 stated advertisements for the posts would be published by mid-January, 2025.

The DAC in its meeting held on January 8, 2025 directed the management to expedite the process and fill the post within three months. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 3481]

Board related issues

2.7.5.3.8 Non-conducting of Performance Evaluation of Members of the Board

According to Rule 8(1) of Public Sector Companies (Corporate Governance) Rule 2013, “the performance evaluation of members of the Board including the Chairman and the Chief Executive shall be undertaken annually by the Government for which the Government shall enter into performance contract with each member of the Board at the time of his appointment. Further, Rule 10(3)(v) of the Listed Companies (Code of Corporate Governance) Regulations, 2019 provides that the Board of the company shall ensure a formal and effective mechanism is put in place for an annual evaluation of the Board’s own performance, members of the Board and of its committees.”

During audit of SLL for the FYs 2022-23 & 2023-24, it was observed that the annual performance evaluation of the Board of the SLL was not being conducted. The Board of the Company did not comply with the rule of ensuring a formal and effective mechanism for annual performance evaluation of its

members and the Board Committees. Besides, there was no formal performance contract with each member of the Board at the time of his appointment, as provided under rules.

Audit is of the view that non-conducting of performance evaluation of the Board members by the Government or non-forming of an effective mechanism for the same purpose by the Board itself resulted into poor oversight of the Company's affairs.

The matter was reported to the management in November, 2024. The management in its reply dated January 08, 2025 stated that Public Sector Companies (Corporate Governance) Rules 2013 were no more applicable to SLL. However, the Annual Performance Evaluation of the Board was required to be done by the Federal Government which was not undertaken.

The DAC in its meeting held on January 8, 2025 directed the management to refer the case of Performance Evaluation of Board members to the Petroleum Division. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 3488]

Tax Related Matters

2.7.5.3.9 Abnormal delay in refund of income tax - Rs 2,518.588 million

According to Section 170 of Income Tax Ordinance, 2001, "a taxpayer who has paid tax in excess of the amount which the taxpayer is properly chargeable under this Ordinance may apply to the Commissioner for a refund of the excess".

During audit of SLL for the FYs 2022-23 & 2023-24, it was observed that the Company had been paying advance income tax from 2012 to 2024. Annual Accounts for the SLL for the year ending on June 30, 2024, revealed that a huge amount of Rs 2,518.588 million was still pending and the same had to be refunded by the FBR to the Company. The detail is as under:

(Rs in million)		
Tax Year	Current Assets	Amount (Rs)
2023-24	Advance Tax	4,034.887
	Provision for Tax	(1,516.299)
	Taxation- Net	2,518.588

Audit is of the view that due to weak pursuance of the tax matter, the issue was pending since long.

The matter was reported to the management in November, 2024. The management in its reply dated January 08, 2025 stated that the matter was sub-judice in Sindh High Court and the next date of hearing was February 14, 2025.

The DAC in its meeting held on January 8, 2025 directed the management to pursue the case vigorously. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 3483]

Others

2.7.5.3.10 Non-maintenance of a Special Account with a scheduled bank for money received as security or deposit - Rs 56.370 million

According to Section of 217(1) (2) (3) of Companies Act 2017 Save as provided in Section 84, “no company or any of its officers or agents shall receive or utilize any money received as security or deposit, except in accordance with a contract in writing. (2) The money so received shall be kept in a special account maintained by a company with a scheduled bank.”

During audit of SLL for the FYs 2022-23 & 2023-24, it was observed that the Company received security/deposits from different suppliers and distributors and the same were deposited into different banks amounting to Rs 56.370 million instead of depositing the amount into a Special Account with a scheduled bank, as required in the rules and also highlighted in the matter of emphasized portion of the annual accounts by the Company’s external auditors.

Audit is of the view that non-maintenance of special bank account with scheduled bank on account of security or deposits received from suppliers & distributors was a serious violation of rules and regulations. The management failed to comply with the provisions of the Companies Act, 2017.

The matter was reported to the management in November, 2024. The management in its reply dated January 08, 2025 stated that bid bonds, performance guarantees and security deposits had not been deposited in the Company’s special or separate bank account. The SLL received amounts in the form of pay orders and demand drafts from suppliers against tenders and from

customers as security for cylinders and other purposes, in accordance with the tender requirements. Those deposits were credited in SLL's bank account other than separate account and the same were refunded to suppliers on their request.

The DAC in its meeting held on January 8, 2025 directed the management to comply with the provisions of Companies Act in letter and spirit. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides expeditiously opening a special bank account with a scheduled bank and take corrective action as per Companies Act, 2017.

[DP No. 3479]

Chapter-3

Cabinet Division

3.1 Oil and Gas Regulatory Authority

3.1.1 (A) Introduction

Oil and Gas Regulatory Authority Ordinance was established under Oil & Gas Regulatory Authority Ordinance, 2002. The objective of the Authority was to foster competition, increase in private investment and ownership in the midstream (storage & carrying) and downstream (storage & distribution) petroleum & gas industry of Pakistan, protect the public interest while respecting individual rights and to provide effective and efficient regulations for related matters. The Authority comprises of Chairman / Chairperson and three Members viz; Member (Gas), Member (Finance) and Member (Oil). They can serve for maximum of two terms, subject to retirement on attaining the age of 65 years. The Authority has the exclusive power to grant licenses for regulated activities with regard to Natural Gas, Compressed Natural Gas (CNG), Liquefied Petroleum Gas (LPG), Liquefied Natural Gas (LNG) and Oil sectors.

(B) Audit Profile of OGRA

Audit profile of OGRA under Cabinet Division is under:

(Rs in million)					
Sr. No.	Description	Total No.	Audited	Expenditure audited FY 2022-23	Revenue / Receipts audited FY 2022-23
1	Formation / Autonomous Body (OGRA)	1	1	1,642.918	1,554.485

(Source: Annual Accounts)

3.1.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 682,888.089 million were raised in this report during the current audit of OGRA. This amount also includes recoveries of Rs 6,211.025 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	Irregularities	-
A	Finance & Accounts Related Issues	5,512.604
B	Internal Control Related Issues	25.809
C	Enforcement Function Related Issues	665,202.162
D	Adjudication Function Related Issues	300.514
E	Pricing Function Related Issues	11,847.000
	Total	682,888.089

3.1.3 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	-
2012-13	1	0	1	0
2013-14	14	12	2	86
2014-15	14	11	3	79
2015-16	3	1	2	33
2017-18	27	16	11	59
2018-19	19	12	7	63
2019-20	13	4	9	31
Total	97	60	37	62

The overall compliance of the PAC directives was very poor and required immediate attention of PAO.

3.1.4 Audit Paras

Finance and Accounts Related Issues

3.1.4.1 Non-imposition of fine on repeated violations of late deposit of annual fee - Rs 2,570.697 million

According to Rule 28(1& 2) of OGRA (LNG) Rules, 2007, no licensee shall contravene or fail to comply with any provision of the Ordinance, rules, regulations, or the terms and conditions of a license or an order, determination or decision of the Authority. Any licensee who commits such contravention shall be punishable with fine for each contravention or failure to comply, which may extend to one-quarter of one per cent of the annual turnover of the licensee in the most recent complete financial year or fifty million rupees, whichever is less.

During audit of OGRA for the FY-2023-24, it was observed that the Authority failed to impose fine on sixty-one defaulters who persistently did not pay the annual fee in advance during last five years. This resulted in non-imposition of fine of Rs 2,570.697 million.

Audit is of the view that weak financial management resulted in non-imposition and recovery of fine of Rs 2,570.697 million.

The matter was reported to management during September, 2024. The management in its reply dated December 26, 2024 stated that annual fee had been realized so penal action was not taken. The reply of management was not tenable as violation of rules had been established. The management was required to take action in compliance of rules, law and act.

The DAC in its meeting held on January 15, 2025, pended the para being pertaining to regulatory functions of the OGRA, till the decision of Supreme Court of Pakistan on appeal filed by Office of Auditor-General of Pakistan against the decision of Islamabad High Court in WP No. 1457 of 2023. Audit contended that referred petition was regarding tariff determination process whereas instant para is related to collection of annual fees and invoking of punitive Clauses of LNG Rules, 2007.

Audit recommends to impose the fine on defaulter as per rules and fix responsibility on person(s) at fault.

[DP Nos. 3094 & 3112]

3.1.4.2 Irregular charge on Federal Consolidated Fund without consultation of Finance Division - Rs 1,469.688 million

According to Rule 12 of Rules of Business 1973, no Division shall, without previous consultation with the Finance Division, authorize the issue of any orders, other than orders in pursuance of any general or specific delegation made by the Finance Division, which will affect directly or indirectly the finance of the Federation. Further, according to Finance Division's clarification issued vide F. No.4(3)R-4/2011 dated January 23, 2024, no charge on the Federal Budget or receipt be created without consultation of Finance Division. The presence of a representative of Finance Division on the Board of any office does not constitute a consultation with Finance Division. Such consultation is required to be undertaken as per prescribed procedure.

During audit of OGRA for the FY-2023-24, it was observed that the Authority incurred expenditure of Rs 1,467.688 million without specific approval from Finance Division. The Authority refunded penalty amounting to Rs 2 million to M/s Damam Petroleum Private Ltd. without legal authority for issuance of refund. OGRA framed/revised its pay scale without approval from the Federal Government/Finance Division and OGRA inadmissibly defreezed the Professional Allowance @ 40% of running basic pay without concurrence of Finance Division. Non-observance of instructions of Finance Division resulted in incurrence of expenditure, framing/revision of pay scale without concurrence of Finance Division.

Audit is of the view that weak financial controls led to non-compliance to rule of business and instruction of the Finance Division.

The matter was reported to the management during September, 2024. The management in its reply dated December 26, 2024 stated that being autonomous body, the Authority was entitled to manage its expenditure at its own. The reply was not tenable being generic and not in line with clarification of Finance Division.

The DAC in its meeting held on January 15, 2025, directed OGRA to seek clarification from Finance Division through Cabinet Division and share the same with the Audit.

Audit recommends to ensure compliance of instructions of the Finance Division.

[DP No. 3246]

3.1.4.3 Non-deposit of fine & penalties and surplus receipts to the Federal Consolidated Fund - Rs 807.427 million

According to the amendment made by the Federal Government to Section 17 of OGRA Ordinance, 2002 through Section 17 of Finance Act 2012, all surplus of receipts over the actual expenditure in a year, after payment of tax, shall be remitted to the Federal Consolidated Fund. Further according to Section 40 B&C of Public Finance Management Act, 2019, the revenue collection authority shall deposit the surplus profit as per provisions of relevant law in Federal Consolidated Fund promptly without delay. Further, according to Finance Division clarification dated January 23, 2024, all offices are required to deposit, after caring out their expenditure as authorized by Federal Government / Finance Division, their annual surpluses in the Federal Consolidated Fund promptly in accordance with provisions of their own laws as well the Public Finance Management Act, 2019.

During audit of OGRA for the FY-2023-24, it was observed that the Authority did not deposit the surplus of Rs 508.776 million in FCF and penalty of Rs 47.425 million was deposited with a delay of 1,309 days. In other 07 cases, penalties of Rs 21.425 million recovered from licenses were not deposited in FCF despite lapse of 1,634 days and its interest of Rs 23.756 million earned on withheld amount was not deposited in Federal Consolidated Fund. Further, 68 banking instruments of Rs 18.642 million were deposited with delay ranging up to 289 days. Furthermore, in contravention of rules, Authority adopted the practice of quarterly depositing of fine and penalties resulting in late deposit of Rs 101.880 million. Fine & penalty of Rs 23.14 million was not deposited against collection of Rs 65.090 million. Authority also did not recover 50% balance amount of Rs 62.680 million, after the decision of Authority in 19 cases. This resulted in non / short deposit of fine & penalties and surplus amounting to Rs 807.724 million.

Audit is of the view that poor financial management resulted in non/late deposit to the Federal Consolidated Fund.

The matter was reported to management during September 2024. The management in its reply dated December 26, 2024 stated that amount was deposited as per practice. The reply was not tenable being not in line with spirit of Public Finance Management Act.

The DAC in its meeting held on January 15, 2025, directed OGRA to comply with Public Finance Management Act in letter and spirit and ensure deposit of at least 80% presumptive surplus into FCF within a month after closer of Financial Year, strengthen internal controls, deposit fine & penalty on monthly basis and expedite pending recovery.

Audit recommends to ensure timely deposit of surplus / fine and penalties and fines in FCF.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2020-21, 2021-22& 2023-24 vide para numbers 3.1.7.3, 3.1.4.3 & 3.1.4.1 having financial impact of Rs 1,258.64 million. Recurrence of same irregularity is a matter of serious concern.

[Annex-8]

3.1.4.4 Non-realization of annual fees from licensees - Rs 514.127 million

According to Rule 29 read with schedule-II(1)(b) of Natural Gas Regulatory Authority (Licensing) Rules, 2002, annual fee payable by the licensee @ 0.5% (license for transmission & distribution) and @ 0.25% (license for sales) of annual turnover of the licensee, generated from the licensed regulated activities in the most recent complete year.

During audit of OGRA for the FY-2023-24, it was observed that management of OGRA could not realize annual fee of Rs 514.127 million from M/s PGP Consortium Ltd. which short paid the annual fee on net sale basis instead of gross revenue, M/S Arab Fertilizer Ltd. which had carried out regulated activity of transmission of natural gas, M/s Pakistan LNG Ltd. wrongly included adjustable income tax in cost of gas and from CNG stations. The Authority could not maintain exact number of CNG stations for realization of annual fee and record revealed four contradicting numbers as provided to Audit, allotted to 3rd party inspectors, displayed on OGRA's website and provided during DAC dated July 31, 2024. This resulted in non-realization of annual fee of Rs 514.127 million.

Audit is of the view that due to weak regulatory / financial function, Authority failed to take action against companies for non/short-payment of balance amount of annual fee.

The matter was reported to management during September, 2024. The management in its reply dated December 26, 2024 stated that Rs 30.713 million was recovered and remaining is being pursued, matter for recovery was taken up with PLL, the gross revenue reported in the audited accounts included sales tax, investment in leases & Deferred Income etc and no annual fee was pending in case of CNG station. The reply was not tenable in case of CNG station as OGRA record showed contradicting number of CNG stations and fees was not realized from all CNG stations even if minimum number of stations were considered. Further, in case of PGPCL, the management contention was not in line with definition of gross revenue.

The DAC in its meeting held on January 15, 2025, directed OGRA to strengthen internal controls, recover the pending amount, observed different interpretation of same provision by two companies and directed OGRA to issue notice to defaulter, recover the amount and get the record verified from the Audit

Audit recommends to recover the amount and take the remedial action besides fixing the responsibility.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2021-22 vide para numbers 3.1.4.10 having financial impact of Rs 117.4 million. Recurrence of same irregularity is a matter of serious concern.

[Annex-9]

3.1.4.5 Potential loss due to non-revision of fee payable by LPG auto filling station - Rs 31.700 million

According to Clause 3(C) Appendix-V of Rule 2(ra) of Liquefied Petroleum Gas (Production and Distribution) Rules, 2001, the license fees prescribed in Clauses 3(a) and 3(b) shall be reviewed with the approval of the Budget Committee constituted by the Federal Government under Section 17 of the OGRA Ordinance, 2002, after every five years keeping in view the inflation rate as well as the budgetary requirements of the Authority.

During audit of OGRA for the FY-2023-24, it was observed that management of OGRA did not revise the fee payable by LPG auto filling station

since 2007. These rates of fee were notified in 2007 and were required to be revised after every five years but Authority failed to revise the same till June, 2024. This resulted in the potential loss of Rs 31.70 million.

Audit is of the view that due to weak regulatory/financial function Authority failed to revise the rate after every five years which resulted in short payment of fee.

The matter was reported to management during September, 2024. The management in its reply dated December 26, 2024 stated that LPG departments had proposed increase in different fee and charges in OGRA (Fee & Charges) Rules, 2023 which were in progress.

The DAC in its meeting held on January 15, 2025, pended the para being pertaining to regulatory functions of the OGRA, till the decision of Supreme Court of Pakistan on appeal filed by Office of Auditor-General of Pakistan against the decision of Islamabad High Court in WP No. 1457 of 2023. Audit contended that referred petition was regarding tariff determination process whereas instant para is related to revision of annual fee as required in LPG Rules, 2001.

Audit recommends to expedite the revision of fee and besides fixing the responsibility for non-revision despite lapse of 12 years.

[DP No. 3138]

3.1.4.6 Short deduction of Income Tax from salaries - Rs 25.184 million

According to Section 12(2a&b) & 13(7) of Income Tax Ordinance, 2001, for the purposes of computing the income of an employee for a tax year chargeable to tax under the head “Salary”, the value of any perquisite provided by an employer to the employee in that year is included in the employee’s salary shall be determined in accordance with this Section. Where a loan is made, by an employer to an employee and either no profit on loan is payable by the employee or the rate of profit on loan is less than the benchmark rate, the amount chargeable to tax to the employee under the head “Salary” for a tax year shall include an amount equal to (a) the profit on loan computed at the benchmark rate, where no profit on loan is payable by the employee, Further, according to Section 170 of Ordinance *ibid*, a taxpayer who has paid tax in excess of the

amount which the taxpayer is properly chargeable under this Ordinance may apply to the Commissioner for a refund of the excess.

During audit of OGRA for the FY-2023-24, it was observed that Authority short deducted Income Tax of Rs 25.184 million from the salaries of employees' due non-inclusion of benefit or profit on HBA in annual salary slab of employees and inadmissible adjustments of refund arising from previous year returns. The refund of previous year could only be claimed by submission of application to commissioner of income tax but Authority had adjusted refund of previous years against current year liability and thereby short, deducted income tax from salaries.

The Audit is of the view that due to weak financial, the income tax was short deducted from the salaries of employees.

The matter was reported to management during September, 2024. The management in its reply dated December 26, 2024 stated that provision of law was not applicable in respect of 34 employees, being loan amount was less than one million. The reply was not tenable as no documentary evidence in respect of 34 employees was provided. Further, no reason of short deduction for remaining 186 employee was provided.

The DAC in its meeting held on January 15, 2025, directed OGRA to seek clarification from FBR with respect to audit observation and get the same verified from Audit.

Audit recommends to recover the amount besides compliance of law.

[DP Nos. 3126 & 3254]

3.1.4.7 Under statement of receivable - Rs 93.781 million

According to OGRA Financial Regulations 2005, regulation 5(b) and (c), the Accounts of the Authority shall be maintained to ensure full disclosure of all material information and presentation of the true state of affairs and financial position at any point of time. Moreover, according to Regulation 13(i) of Regulation *ibid*, revenue, on its accrual, must be formally claimed by the respective Departments by sending proper notice of demand to the licensees and proper record of the recoveries should be maintained.

During audit of OGRA for the FY-2023-24, it was observed that OGRA failed to develop a mechanism for assessment, realization and booking of annual fee for preparation of financial statements presenting true and fair view of state affair of authority. Authority reported receivable of Rs 32.000 million on account of annual fee for FY-2021-22 but actually this amount was already recovered prior to June 30, 2022. Further, the annual fee of Rs 61.781 million was neither recovered in advance nor shown as receivable at close of financial year as detailed below:

Annual fee Rs in million	Pertaining to FY	Recovered during FY	No of Licensee
37.934	2022-23	2023-24	21
14.647	2021-22	2023-24	6
1.2	2020-21	2023-24	2
8	2016-17 to 2019-20	2020-21	16
61.781	Total		

This resulted in over / under statement of receivable of Rs 93.781 million.

Audit is of the view that due to poor financial controls resulted preparation of financial statements not giving true and fair view.

The matter was pointed out during September, 2024. The management in its reply dated December 26, 2024 stated that Accounts were certified by the Chartered Accountant Firm. The reply was not tenable being generic and not in line with spirit of rules and International Accounting Standard.

The DAC in its meeting held on January 15, 2025, directed Cabinet Division to conduct fact finding inquiry and share the findings with the Audit.

Audit recommends to take remedial action besides fixing the responsibility for violation of rules and accounting standards.

[DP No. 3103]

Internal Controls Related Issues

3.1.4.8 Un-justified purchase of vehicle without establishment of regional office. Rs 25.809 million

According to Authority's administrative meeting 07 dated April 26, 2022, the Authority principally approves the purchase of vehicles for establishment of

OGRA additional/new regional office at Faisalabad, Multan and Sukkar. Further, the Authority approved “once the office is fully established/operational 01*vehicle, (1300) each for above three stations to perform operational, protocol and enforcement activities”.

During audit of OGRA for the FY-2023-24, it was observed that management purchased 4 vehicles (1500cc) during October, 2022 without establishment of three regional office. Further, management purchased 1500cc vehicles instead of 1300cc. The period of about 2 and half year lapsed but regional office could not be established. Similarly, wasteful expenditure on purchase of 06 laptops despite 12 laptops already lying idle in the store. The resulted in un-justified expenditure amounting to Rs 25.809 million on purchase of vehicles and laptop.

Audit is of the view that weak internal control, vehicles were purchased without needs and higher engine 1500cc instead of 1300cc.

The matter was pointed out during September, 2024. The management in its reply dated December 26, 2024, stated early placement of purchase order was due the long-time taken by the company for delivery of vehicles. Further, it may be mentioned that the 1500cc vehicles instead of 1300cc vehicles were purchased keeping in view the requirement of Enforcement activities.

The DAC in its meeting held on January 15, 2025, directed OGRA to get regularized the violation of authority decision and share record with Audit for verification.

Audit recommends to get regularized the violation of authority’s decision besides fixing the responsibility.

[DP No. 3121]

Enforcement Function Related Issues

3.1.4.9 Inaction against companies doing regulated activity without license - Rs 632,596.000 million

According to Section 22(1) read with Section 23(1)(d) of OGRA Ordinance, 2002, no person shall undertake transmission, distribution, or sale of natural gas, unless a general or specific license to undertake such activity has been issued and is in full force and effect and the person is the licensee.

According to Rule 3& 69 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, no person shall construct or operate a refinery without obtaining a license from the Authority. Any person who contravenes any provisions of the Ordinance, these rules, terms and conditions of the license, or the decision of authority shall be punishable with fine which may extend to ten million rupees.

During audit of OGRA for the FY-2023-24, it was observed that the Authority failed to take action against eight companies doing regulated activity without obtaining license as detailed below:

Sr. No.	Name of company	Activity being done without license
1	OGDCL	Sale of low-pressure gas from 11 fields to 3 rd party since 2004.
2	Fuji Fertilizer Company	Constructed 14 Km gas transmission pipeline from OV-2 valve assembly to Mirpur Mathelo.
3	Pakistan Energy Ltd.	Sale of gas from Badin IV-South to 3 rd party.
4	Shahzad Processing Solution Private Ltd.	Sale and purchase of gas from exploration and production company.
5	Shah Latif CNG, Hyderabad Sindh	Purchase of gas from OGDCL for three years despite expiry of CNG station license.
6	Pakistan Petroleum Ltd	Sale of gas to 3 rd party to Bugti CNG.
7	Tullow (now M/s SPUD Energy)	Operating transmission pipeline from Sara / Suri Field to CPGCL Pipelines near Mari Well No 6.
8	ENAR Petroleum Refining Facility	Operating as refinery since 2000 without obtaining license.

This resulted inaction against companies carrying out regulated activities valuing Rs 632,596.000 million without having license from OGRA.

Audit is of the view that weak regulatory oversight resulted in carrying out regulated activities without obtaining license.

The matter was reported to management during September 2024. The management in its reply dated December 26, 2024 stated that OGDCL was advised to explain position, SNGPL was constructing transmission pipeline for Fuji Fertilizer Company at cost sharing basis, SPS license application was under process. The DG, PC initiated action against M/s PEL against which company obtained stay order from Islamabad high Court. The management did not submit reply in remaining cases.

The DAC in its meeting held on January 15, 2025, pended the para being pertaining to regulatory functions of the OGRA, till the decision of Supreme Court of Pakistan on appeal filed by Office of Auditor-General of Pakistan against the decision of Islamabad High Court in WP No. 1457 of 2023. Audit contended that referred petition was regarding tariff determination process whereas instant para is related to inaction by OGRA against companies doing regulated activities without obtaining license from Authority.

Audit recommends to expedite the action for registration/licensing of companies for doing regulated activity without obtaining license and recovery of annual fee/registration fee besides fixing the responsibility.

[DP No. 3245]

3.1.4.10 Non-implementation of ECC's decision regarding increase in LNG margin - Rs 26,700.000 million

According to Section 21(1&2) of OGRA Ordinance, 2002, the Federal Government may, as and when it considered necessary, issue policy guidelines to the Authority on matter of policy and Authority shall comply with the policy guidelines in the exercise of its powers and function and in making decisions. The Federal Government may issue policy guidelines in relation to pricing of petroleum. Further the Economic Coordination Committee of the Cabinet considered the summary dated May 30, 2018 submitted by the Petroleum Division regarding increase in Pakistan State Oil/Pakistan LNG Limited Margin on LNG and approved the proposal for increase in margin in LNG from 2.5% to 3.75% to mitigate higher incidence of tax on LNG.

During audit of OGRA for the FY-2023-24, it was observed that management failed to implement the decision of ECC regarding increase in LNG margin for PSO from 2.5% to 3.75% valuing Rs 800.000 million. Further OGRA could not act for actualization of PSO's exchange loss of Rs 5,800 million for period 2015 to 2021, that was incurred on the import of LNG from Qatar Gas. Furthermore, OGRA also failed to resolve the long outstanding issue relating to actual RLNG price computation of PLL since 2017 involving Rs 20,000 million. This resulted in non-implementation of decision of ECC and non-finalization of RLNG prices involving an amount of Rs 26,700.000 million.

Audit is of the view that due to non-compliance of policy guidelines of Federal Government, actualization of amount of Rs 26,700.000 million could not be done.

The matter was reported to management during September 2024. The management in its reply dated December 26, 2024 stated that after thorough analysis and while adopting a rational approach, OGRA adopted and fixed RLNG margin at 2.5%. The reply of management was not tenable because Authority failed to implement the ECC's decision despite lapse of seven years.

The DAC in its meeting held on January 15, 2025, directed OGRA to share its correspondence with the concerned ministry regarding the issue and get the same verified from Audit.

Audit recommends to implement the ECC's decision in letter and spirit.

[DP Nos. 3137 & 3248]

3.1.4.11 Non-imposition of penalty on oil marketing companies operating excessive retail outlets than storage capacity - Rs 2,926.000 million

According to OGRA's regulatory meeting of 2 of 2017 dated August 4, 2017, criteria for establishment of retail outlets by the oil marketing companies i.e. 2 MT / day as average benchmark for construction of maximum number of retail outlets by all the OMCs corresponding to their available back up storage infrastructure, province-wise. Further, according to Rule 69 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, any person who contravenes any provisions of the Ordinance, these rules, terms and conditions of the license, or the decision of authority shall be punishable with fine which may extend to ten million rupees and in case of continuing contravention with a further fine which may extend to one million rupees for every day during which such contravention continues

During audit of OGRA for the FY-2023-24, it was observed that authority failed to act against 16 OMCs which were operating excess outlets than the criteria given by Authority. A comparison of allowed and actual outlets revealed that 16 OMCs were allowed 533 outlets in respective province keeping in view their storage capacity, however, the companies had built 3,459 outlets as on June 30, 2024, resulting in 2,926 excess outlets. This resulted in non-imposition of penalty amounting to Rs 2,926.000 million.

Audit is of the view that OGRA failed to promote and ensure the observance of efficient practices in marketing and storage of petroleum products.

The matter was reported to management during September 2024. The management in its reply dated December 26, 2024 stated that OGRA had acted according to rules and issued orders against the licensees which had preferred to take legal action, and the matter was sub-judice in Islamabad High Court.

The DAC in its meeting held on January 15, 2025, pended the para being pertaining to regulatory functions of the OGRA, till the decision of Supreme Court of Pakistan on appeal filed by Office of Auditor-General of Pakistan against the decision of Islamabad Hight Court in WP No. 1457 of 2023. Audit contended that referred petition was regarding tariff determination process whereas instant para is related to non-invoking of punitive clauses of Pakistan Oil Rules, 2016 on addition of excess outlets in violation of OGRA direction.

Audit recommends to justify the matter, impose and recover the penalty and ensure the numbers of retail outlets of OMCs are in line with their storage capacity.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2021-22 vide para numbers 3.1.4.8. Recurrence of same irregularity is a matter of serious concern

[DP No. 3095]

3.1.4.12 Non-imposition of penalty on OMCs and refineries for non-adherence to PRM decision - Rs 1,077.100 million

According to minutes of monthly Product Review Meeting all OMCs and refineries are directed to strictly adhere with their production and import plans respectively, to avoid mismatch between the number finalized in PRM vs in actual and subsequent repercussions on supply chain. Further, according to Rule 69 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, any person who contravenes any provisions of the Ordinance, these rules, terms and conditions of the license, or the decision of authority shall be punishable with fine which may extend to ten million rupees. Further, the Authority in its regulatory order 10 of 2021 dated July 13, 2021 devise the formula for calculating of penalty in respect of import plan for violation by OMC.

During audit of OGRA for the FY-2023-24, it was observed that Authority did not take action against the refineries and OMCs for non-conforming to the decisions taken in the PRM. Audit observed that no action was taken against the refineries which persistently failed to meet their production target by up to 76%. Similarly, OMCs did not import or purchase the quantity assigned in PRM but punitive action was not taken against them. This resulted in non-imposition of penalty amounting to Rs 1,077.100 million on short import / production / upliftment of petrol and diesel.

Audit is of the view that due to weak oversight OMCs and refineries did not meet their target which could result in disruption in oil supply chain.

The matter was reported to management during September, 2024. The management in its reply dated December 26, 2024 stated that each month planning was done at beginning of month however, there could be some variance between forecasted and actual figure and that should not be used as ground for penalties. The reply of management was not tenable being generic and not in line with spirit of Pakistan Oil Rules. The orders given by Regulator during product review meetings had been violated by refineries / OMCs so stringent action should had been taken to ensure supply chain.

The DAC in its meeting held on January 15, 2025, pended the para being pertaining to regulatory functions of the OGRA, till the decision of Supreme Court of Pakistan on appeal filed by Office of Auditor-General of Pakistan against the decision of Islamabad High Court in WP No. 1457 of 2023. Audit contended that referred petition was regarding tariff determination process whereas instant para is related to non-invoking of punitive clauses of Pakistan Oil Rules, 2016 on violation of OGRA direction given during product review meeting.

Audit recommends to take action against defaulting OMCs and refineries and recover the penalty. Audit also recommends that the compliance of PRM decisions is made by the stakeholders.

[DP Nos. 3099, 3115 & 3252]

3.1.4.13 Non-maintenance of minimum mandatory stock of POL products by OMCs - Rs 770.000 million

According to Rule 37 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, every oil marketing company shall maintain such minimum stocks of petroleum product as the Federal Government may, from time to time, by order in writing specify. According to minutes of Product Review Meeting held every month, all OMCs are directed to maintain mandatory required stock of all products. Further according to Rule 69 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, any person who contravenes any provisions of the Ordinance, these rules, terms and conditions of the license, or the decision of authority shall be punishable with fine which may extend to ten million rupees.

During audit of OGRA for the FY-2023-24, it was observed that the Authority did not take action against OMCs which failed to maintain the mandatory requirement of stock of Petrol and High-Speed Diesel. In case of High-Speed Diesel, 21 OMCs out of 39 were holding stock not more than five days of supply. This resulted in shortfall in minimum mandatory stock and non-imposition of penalty amounting to Rs 770.000 million.

Audit is of the view that due to weak regulatory oversight the minimum level of stock could not be maintained.

The matter was reported to management during September, 2024. The management in its reply dated December 26, 2024 stated that national oil supply chain was influenced by numerous challenges such as economic activity, high international oil prices, reported influx of smuggled product and geopolitical tension. The regulatory framework was thus intended for facilitation rather than penalising, necessitating a holistic approach. The reply was not tenable as regulator failed to impose its directive regarding maintenance of minimum mandatory stock level.

The DAC in its meeting held on January 15, 2025, pended the para being pertaining to regulatory functions of the OGRA, till the decision of Supreme Court of Pakistan on appeal filed by Office of Auditor-General of Pakistan against the decision of Islamabad High Court in WP No. 1457 of 2023. Audit contended that referred petition was regarding tariff determination process whereas instant para is related to non-invoking of punitive clauses of Pakistan

Oil Rules, 2016 on non-maintenance of minimum mandatory stock of POL product.

Audit recommends to impose penalty against OMCs for non-maintaining the minimum mandatory stock in order to avoid any oil shortages in the country.

[DP No. 3096]

3.1.4.14 Non-submission of monitoring reports by OMCs - Rs 340.000 million

According to Rule 39 read with Rule 69 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, every oil marketing company shall be responsible to ensure correct measurement and supply of petroleum products of the laid down specifications at its retail outlets and shall maintain quarterly profile of such checks for the examination of the Authority as and when called for. 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 OGRA for the FY-2023-24, it was observed that the Authority failed to act against 34 OMCs which were not submitting quarterly profile for review despite repeated instructions by the Authority. It may be pointed out that even the reports submitted by 8 OMCs were not being scrutinized at all. This resulted in weak monitoring and non-imposition of penalty amounting to Rs 340.000 million.

Audit is of the view that the weak regulatory oversight resulted in non-enforcement of instructions issued by the Regulator.

The matter was reported to management during September, 2024. The management in its reply dated December 26, 2024 stated that submissions of self-monitoring reports were not mandatory by law. The information would be requested by the Authority when necessary. Audit contended that reply was not tenable being not in line with the Rules *ibid* and instruction issued by Authority.

The DAC in its meeting held on January 15, 2025, pended the para being pertaining to regulatory functions of the OGRA, till the decision of Supreme Court of Pakistan on appeal filed by Office of Auditor-General of Pakistan against the decision of Islamabad High Court in WP No. 1457 of 2023. Audit contended that referred petition was regarding tariff determination process

whereas instant para is related to non-invoking of punitive clauses of Pakistan Oil Rules, 2016 on non-submission of monitoring reports.

Audit recommends to take punitive action against OMCs for defiance to Rules and orders of Authority and ensure the compliance of Oil rules in future.

[DP No. 3135]

3.1.4.15 Failure to identify source of supplying illegal flare gas to CNG stations - Rs 23.450 million

According to Sections 6(2)(a), 22(1), 23(6) of OGRA Ordinance, 2002, the sale of Natural Gas to a consumer is a regulated activity and requires a separate license from OGRA under the above provision of law. Further, as per provision of Ordinance *ibid*, no person shall undertake transmission, distribution, or sale of natural gas, unless a general or specific license to undertake such activity has been issued and is in full force and effect and the person is the licensee. Further, according to rule 20 of CNG Rules, 1992, whosoever 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 fifty thousand rupees.

During audit of OGRA for the FY-2023-24, it was observed that the Authority failed to exercise adequate controls in case of safe and legal operations of CNG stations. It could not take action against E&P companies supplying flare gas to twenty CNG stations. Although OGRA cancelled the licenses of these CNG stations after discovering that they were selling flare gas but with a delay of up to 1,189 days. It is also pointed out that 3rd party inspectors of OGRA also failed to report use of flare gas and operation of CNG stations with expired licenses. In one case, OGRA failed to confiscate 208 expired cylinders which could be re-used and caused any incident. As per CNG Rules, 1992 the Authority was required to recover the penalty and inspection fees from defaulting CNG stations, but it was not imposed. This resulted in non-recovery of an amount of Rs 23.450 million.

Audit is of the view that due to weak enforcement function of Authority the source of flare gas could not be identified and pending dues could not be recovered.

The matter was reported to management during September, 2024. The management in its reply dated December 26, 2024 stated that action against all those fields / wellheads / facilities supplying flare gas to the CNG Stations illegally and unlawfully was required to be taken by the DG (PC). The reply of management was not tenable as according to OGRA Ordinance, 2002, the sale of Natural Gas to a consumer, being a regulated activity required a separate license from OGRA.

The DAC in its meeting held on January 15, 2025, pended the para being pertaining to regulatory functions of the OGRA, till the decision of Supreme Court of Pakistan on appeal filed by Office of Auditor-General of Pakistan against the decision of Islamabad High Court in WP No. 1457 of 2023. Audit contended that referred petition was regarding tariff determination process whereas instant para is related to inaction by OGRA regarding identification of sources of supply of flare gas.

Audit recommends to take action against the defaulting CNG stations and E&P companies for violation of rules besides fixing the responsibility.

[DP No. 3098]

3.1.4.16 Non-imposition of penalty on late submission of petitions for Final Revenue Requirement - Rs 194.000 million

According to Authority's direction vide Case No. OGRA-6(2)-02(1)/2003-(Review) dated March 19, 2004, the company is obligated to file Final Revenue Requirement petition duly supported by auditor's initial account on or before 15th August of the succeeding financial year. Further, according to Rule 20 (3)(1) of Natural Gas Tariff Rules, 2002, any licensee who contravenes materially any provision of the Ordinance, these rules or an order, determination, direction or instruction of the Authority shall be punishable with fine which may be extended to, one-quarter of one per cent of the annual turnover of the licensee in the most recent complete financial year or twenty million rupee, whichever is less, and in the case of a continuing contravention with additional fine which may extend to, one-tenth of one per cent of the annual turnover of the licensee in the most recent complete financial year or two million rupees, whichever is less, for every day during which such contravention continues after the first contravention.

During audit of OGRA for the FY-2023-24, it was observed that the Authority did not take action against two gas utility companies who were submitting petitions for annual revenue requirement with a delay ranging up to fourteen months during last five years. However, no penalty of Rs 194.000 million was imposed.

Audit is of the view that due to weak regulatory oversight penalty was not imposed on gas companies.

The matter was reported to management during September, 2024. The management in its reply dated December 26, 2024 stated that OGRA issued number of strict directions, reminders and Show Cause Notices to both the utility companies to comply with the Authority directions, in order to finalize the FRR petitions within the statutory timeline. The reply of management was not tenable as no penal action was taken against sui companies for non-compliance of rule / authority order.

The DAC in its meeting held on January 15, 2025, pended the para being pertaining to regulatory functions of the OGRA, till the decision of Supreme Court of Pakistan on appeal filed by Office of Auditor-General of Pakistan against the decision of Islamabad High Court in WP No. 1457 of 2023. Audit contended that referred petition was regarding tariff determination process whereas instant para is related to non-invoking of punitive clauses of Natural Gas Tariff Rules, 2002 on late submission petition for final revenue requirement.

Audit recommends to take punitive action against gas companies besides fixing the responsibility.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2021-22 vide para numbers 3.1.4.17. Recurrence of same irregularity is a matter of serious concern.

[DP No. 3114]

3.1.4.17 Non- registration of LPG distributors and non-recovery of annual fee - Rs 164.440 million

According to serial No. 3.6.5 of LPG (Production & Distribution) Policy 2016, OGRA will charge a reasonable fee from each LPG Distributor not exceeding Rs 10,000 for registration. For all future Distributors, the Marketing Companies shall within 7 working days of the appointment of a Distributor notify OGRA, and OGRA shall within 90 days thereof register those Distributor

During audit of OGRA, Islamabad for the FY 2023-24, it was observed that Authority did not ensure registration of LPG distributors. Scrutiny of record revealed that 340 LPG marketing companies were registered with OGRA. Out of which the list 5,827 LPG Distributors belonging to 102 LPG marketing companies was available on OGRA's web site. No list of Distributors of remaining 238 LPG marketing companies was available with the Authority. Further, the Authority could only register 2,154 distributors despite lapse of seven years. Audit also noticed huge difference between no. of distributors as given on OGRA website and as company's website. The variation in 04 cases is summarised below:

Name of LPG marketing companies	No. as per OGRA Website	No. as Company's website	Variation
PSO	103	323	-220
SHV Energy Pakistan	425	498	-73
OPI Gas Private Ltd.	113	157	-44
Lubes Gas	434	437	-3
Total	1,075	1,415	-340

Further contradiction was observed in number of distributors given in annual report of OGRA (i.e. 7400-FY-2019-20, 5500-FY-2020-21, 7000-FY-2021-22) The above position showed that OGRA was unaware of actual/exact numbers of distributors. This resulted in the non-registration of distributors and thereby non-recovery of potential revenue of Rs 164.440 million.

Audit is of the view that weak regulatory oversight resulted in non-registration of LPG distributors.

The matter was reported to management during September, 2024. The management replied during November 2024 that so far 2,154 LPG distributors had been registered. Further, the registration of remaining distributors was in process.

The DAC in its meeting held on January 15, 2025, pended the para pertaining to regulatory functions of the OGRA, till the decision of Supreme Court of Pakistan on appeal filed by Office of Auditor-General of Pakistan against the decision of Islamabad High Court in WP No. 1457 of 2023. Audit contended that referred petition was regarding tariff determination process whereas instant para is related to inaction by OGRA for registration of distributors.

Audit recommends to take steps for updating list of distributors in respect of 340 LPG marketing companies and ensure their registration without further delay.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2023-24 vide para numbers 3.1.4.6 having financial impact of Rs 29.620 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 3123]

3.1.4.18 Non-compliance of OGRA's directives and license conditions - Rs 102.000 million

According to Rule 20(3)(1) of Natural Gas Tariff Rules, 2002, any licensee who contravenes materially any provision of the ordinance, these rules or an order, determination, direction or instruction of the Authority shall be punishable with fine which may be extended to, one-quarter of one per cent of the annual turnover of the licensee in the most recent complete financial year or twenty million rupee, whichever is less, and in the case of a continuing contravention with additional fine which may extend to, one-tenth of one per cent of the annual turnover of the licensee in the most recent complete financial year or two million rupees, whichever is less, for every day during which such contravention continues after the first contravention.

During audit of OGRA for the FY-2023-24, it was observed that Authority did not impose penalty of Rs 102.000 million on gas companies and LPG marketing companies for non-compliance of rules / license conditions. The licensees failed to comply with the instructions regarding revision of pay scales, health & safety standards, installation of odorization unit on each SMS, obtaining NOC from environmental protection agencies and plantation of 5,000 trees but no action was taken by OGRA. This resulted in non-imposition of penalty of Rs 102.000 million.

Audit is of the view that negligence in performing regulatory functions by the Authority resulted in non-compliance of direction, thereby non-imposition of penalty.

The matter was reported to management during September, 2024. The management in its reply dated December 26, 2024 stated that any disallowance under the HR cost serves as a penalty for the petitioner's failure to adhere to the approved budgetary limits, these LPG plants were granted operational licenses in

the year 1983 whereas Punjab Environmental Protection Agency Act was promulgated in 1997. The Authority did not ensure implementation of environmental standards at the time of renewal of licenses.

The DAC in its meeting held on January 15, 2025, pended the para being pertaining to regulatory functions of the OGRA, till the decision of Supreme Court of Pakistan on appeal filed by Office of Auditor-General of Pakistan against the decision of Islamabad High Court in WP No. 1457 of 2023. Audit contended that referred petition was regarding tariff determination process whereas instant para is related to non-invoking of punitive clauses of Natural Gas Tariff Rules, 2002 on non-compliance of license condition and Regulator direction.

Audit recommends to ensure implementation of the directions of the Authority besides imposition of penalty.

[DP Nos. 3133 & 3255]

3.1.4.19 Non-protection of consumers' rights against overcharging, less filling and sale of sub-standard POL products - Rs 152.572 million

According to Section 6(q) of Oil and Gas Regulatory Authority Ordinance, 2002, the Authority shall protect the interests of all stakeholders including consumers and the licensees. Further, according to Rule 39 read with Rule 69 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, every oil marketing company shall be responsible to ensure correct measurement and supply of petroleum products of the laid down specifications at its retail outlets. 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 OGRA for the FY-2023-24, it was observed that Authority conducted inspections of 702 retail outlets out of total 11,449 during one month. 181 retail outlets were found involved in selling sub-standard POL products, overcharging and less filling. Further, either the Authority did not take punitive action, or punitive action was not in accordance to gravity of violation against the retail outlets for sale of sub-standard product and overcharging. Authority relaxed the punitive clauses by reduction of quantum of penalty vide

notification issued in 2024 by rescinding earlier notification of 2020. In 5 cases, Authority wrongly withdrawn the penalty on dis ownership of outlets by OMCs. Furthermore, action was not taken against retails outlets selling illegal and smuggled product. This resulted in non-protection of consumers' right and overcharging of Rs 152.572 million.

Audit is of the view that weak regulatory compliance resulted in non-protection of interests of consumers and non-recovery of penalty.

The matter was reported to management during September 2024. The management in its reply dated December 26, 2024 stated that OGRA had never allowed any of its OMCs to sale substandard petroleum and 37 retail outlets were being penalized and penalty case of three outlets was pending. The reply of management was not tenable being generic and not in line with spirit of Rules ibid. Audit contended that while imposing penalty, principle of proportionality was totally ignored in 20 cases. For example, two licensees holding 800 Litters and 22, 000 Litters respectively were fined with same penalty of Rs 100,000 which showed the ignoring the principle of proportionality as required by Rules ibid. Furthermore, the document provided with reply showed that recovery of penalty in 10 cases was yet pending. In 3 cases, penalty was wrongly withdrawn on grounds that OMCs disowned the outlets and in 4 cases no penalty was imposed for reason best known to Authority The reply of management showed that OGRA did not have its own mechanism for protection of interest of general consumers.

The DAC in its meeting held on January 15, 2025, pended the para being pertaining to regulatory functions of the OGRA, till the decision of Supreme Court of Pakistan on appeal filed by Office of Auditor-General of Pakistan against the decision of Islamabad Hight Court in WP No. 1457 of 2023. Audit contended that referred petition was regarding tariff determination process whereas instant para is related to non-invoking of punitive clauses of Pakistan Oil Rules,2016 on sale of sub-standard product, overcharging and less filling of POL product.

Audit recommends to take action against sale of sub-standard POL products, overcharging and less filling.

[Annex-10]

3.1.4.20 Non-imposition of penalty for non-submission of annual testing reports by LPG companies - Rs 81.500 million

According to Para 3.3.7 of LPG (Production and Distribution Policy, 2016, the LPG marketing companies shall provide certificates duly mentioning the serial number of their cylinders to OGRA before 31st December of each year confirming that the cylinders have been properly tested as per requirement of the LPG Rules / Standards. Further, according to regulatory meeting dated August 6, 2019, a fine of Rs 500,000 shall be imposed on concerned LPG marketing company in case of major violation of rules, regulations and directions of the Authority.

During audit of OGRA for the FY-2023-24, it was observed that the Authority did not take action against 340 LPG marketing companies which were not submitting annual inspection reports of cylinders since 2016. This resulted in non-imposition of penalty of Rs 81.500 million.

Audit is of the view that weak regulatory function, Authority failed to take action against companies who were not submitting the requisite annual inspection reports.

The matter was reported to management during September, 2024. The management in its reply dated December 26, 2024 stated that around 150 companies had submitted the requisite information. The follow-up of remaining companies was in progress.

The DAC in its meeting held on January 15, 2025, pended the para being pertaining to regulatory functions of the OGRA, till the decision of Supreme Court of Pakistan on appeal filed by Office of Auditor-General of Pakistan against the decision of Islamabad High Court in WP No. 1457 of 2023. Audit contended that referred petition was regarding tariff determination process whereas instant para is related to non-invoking of punitive clause of LPG Policy, 2016.

Audit recommends to impose the penalty on companies not submitting the annual inspection reports besides fixing the responsibility.

[DP No. 3111]

3.1.4.21 Non-construction of storage facility as per approved work programme and short imposition of penalty - Rs 75.100 million

According to Rules 37 read with 69 of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, every oil marketing company shall maintain such minimum stocks of petroleum product as the Federal Government may, from time to time, by order in writing specify. Any person who contravenes any provisions of the Ordinance, these rules, terms and conditions of the license, or the decision of authority shall be punishable with fine which may extend to ten million rupees. Further, according to decision taken by authority in its regulatory meeting No. 17 of 2019 dated July 2, 2019, Authority approved the criteria for imposition of penalty on the percentage progress of the storage completed against work plan

During audit of OGRA for the FY-2023-24, it was observed that the Authority did not take stringent action against twenty-six OMCs which failed to construct committed storage facilities in Khyber Pakhtunkhwa, Balochistan and Sindh for 50,314 M. Tonne of petroleum products as per approved work programme. Further, Authority imposed short penalty on OMCs that failed to comply with the work plan in violation of criteria *ibid*. Furthermore, Authority did not impose penalty on OMCs which built 275% excess storage in one province in violation of work plan. Moreover, 39 LPG plants did not build minimum storage capacity of 50 M. Tonne in violation of Authority decision dated February 2, 2021 but the Authority did not impose penalty of Rs 75.100 million.

Audit is of the view that due to weak regulatory function, province wise and product wise storage capacity could not be built.

The matter was reported to management during September 2024. The management in its reply dated December 26, 2024 stated that 16 LPG companies out of 39 had successfully enhanced /developed their LPG storage capacity and compliance from remaining companies was in progress. Further, OMCs were required to complete work programme province-wise to become eligible for securing long-term license Audit contended that Authority failed to ensure compliance of approved work plan/programs by OMCs / LPG marketing companies.

The DAC in its meeting held on January 15, 2025, pended the para pertaining to regulatory functions of the OGRA, till the decision of Supreme Court of Pakistan on appeal filed by Office of Auditor-General of Pakistan against the decision of Islamabad High Court in WP No. 1457 of 2023. Audit contended that referred petition was regarding tariff determination process whereas instant para is related to non-invoking of punitive clauses of Pakistan Oil Rules, 2016 on non-construction of storage in accordance with work program.

Audit recommends to take action against the licensees for violation of work plan, ensure the construction of storage capacity and imposition of penalty.

[DP Nos. 3110, 3116 & 3131]

Adjudication Function Related Issues

3.1.4.22 Inordinate delay in finalization of the appeals - Rs 300.514 million

According to Section 12 of OGRA Ordinance, 2002, any person aggrieved by any order or decision of the delegates of a power delegated by the Authority under Section 10 may within 30 days of receipt of such decision or order, prefer appeal to the Authority and Authority shall hear and decide the appeal within 90 days from the date of its presentation. Further, according to Rule 15(3) of Natural Gas Tariff Rules, 2002, the Authority shall decide a petition within three months of the date of filing of the petition.

During audit of OGRA for the FY-2023-24, it was observed that the Authority decided 23 appeals involving penalties of Rs 154.180 million with a delay ranging up to 1,686 days. The licensee deposited 50% penalties of Rs 77.090 million in OGRA accounts and filed appeals and deposit of remaining 50% was also delayed up to four years. Further, four appeals involving penalty of Rs 61.10 million filed by OMCs despite lapse of 1,485 days. Furthermore, the Authority decided the petitions of final revenue requirement filed by two sui companies with a delay ranging up to 15 months. This resulted in non / late decision of cases involving Rs 300.514 million leading to late deposit of penalty amount in government account.

Audit is of the view that delay in finalization of appeals resulted in late deposit of penalty of Rs 300.514 million in government account.

The matter was reported to management in September, 2024. The management in its reply dated December 26, 2024 stated that OGRA put their best to remove the backlog and processed/ disposed of cases of appeals/ reviews including long awaiting cases of 2019 onward for decision of the Authority and hearing in remaining cases shall be fixed before the Authority at appropriate course of time. The management has not provided justification for delay of about five years.

The DAC in its meeting held on January 15, 2025, pended the para being pertaining to regulatory functions of the OGRA, till the decision of Supreme Court of Pakistan on appeal filed by Office of Auditor-General of Pakistan against the decision of Islamabad Hight Court in WP No. 1457 of 2023. Audit contended that referred petition was regarding tariff determination process whereas instant para is related to non-decision appeals despite lapse of five years.

Audit recommends to ensure decision of the cases as per stipulated time besides depositing the amount in government account as early as possible.

[Annex-11]

Pricing Function Related Issues

3.1.4.23 Excess determination of RLNG price due to unjustified inclusion of Sindh Infrastructure Development Cess - Rs 11,847.000 million

According to Section 43B of OGRA Ordinance, 2002 read with ECC's decision, dated June 06, 2015, the Authority, in accordance with the policy guidelines issued by the Federal Government from time to time, shall determine and notify the sale price of RLNG.

During audit of OGRA for the FY-2023-24, it was observed that the Authority notified RLNG price after wrong inclusion of Sindh Infrastructure Development Cess. The Cess should not be included in price of RLNG as it was not being paid by importer on ground that the Cess issue was sub-judice. This resulted in determination of excess price of RLNG leading to excess burden of Rs 11,847.000 million to consumers.

Audit is of the view that weak oversight of Authority resulted in wrong inclusion of Sindh infrastructure Development Cess which was not actually paid by importers in price of RLNG

The matter is reported to the management during November, 2024. The management in its reply dated December 26, 2024, stated that Ministry of Energy, vide its letter dated June 27, 2016 had conveyed ECC's decision regarding Sindh Infrastructure Development Cess wherein PSO was advised to take up the matter with Sindh Government for non-applicability of Sindh Infrastructure Development Cess in line with other petroleum products. The reply was not tenable as para was regarding unjustified inclusion of unpaid Cess in RLNG prices by OGRA.

The DAC in its meeting held on January 15, 2025, pended the para being pertaining to regulatory functions of the OGRA, till the decision of Supreme Court of Pakistan on appeal filed by Office of Auditor-General of Pakistan against the decision of Islamabad High Court in WP No. 1457 of 2023. Audit contended that referred petition was regarding tariff determination process whereas instant para is related to wrong inclusion of Cess in RLNG price.

Audit recommends to initiate corrective action under the law for adjusting the Sindh Infrastructure Development Cess amount.

[DP No. 3256]

THEMATIC AUDIT

Chapter-4

Thematic Audit

1. Monitoring Mechanism for Collection of Non-Tax Receipts

1.1. Introduction

Federal Revenue Receipts are classified into two main categories i.e. Tax Revenue and Non-Tax Revenue. Non-Tax Revenue comprises recurring income generated by the Federal Government from sources other than taxes. This revenue plays an essential role in augmenting government finances especially when challenges arise while expanding the tax base to meet increasing fiscal demand.

“Non-Tax Revenue means revenues received by the Government in terms of clause (1) of Article 78 of the Constitution and the recurring income of the government from the investments and provision of the services”⁵¹. Non-tax revenue includes the Royalty, Lease and License Rent, Petroleum Levy and Gas Development Surcharge which are overseen by the Petroleum Division. According to the schedule II of Rules of Business, 1973, Petroleum Division is vested with the power to deal all matters relating to oil, gas, and minerals at the national and international levels. These include policies formulation, enacting legislation, and managing the exploration, development, and production of hydrocarbon resources. To implement this mandate, the directorates DG (PC), DG (Oil), and DG (Gas) are tasked with collecting and monitoring Non-Tax Receipts namely Royalty on Oil & Gas, Lease Rent and License Rent from E&P companies, Petroleum Levy on local and imported crude oil from refineries and oil marketing companies and Gas Development Surcharge from gas companies.

1.2. Background

The monitoring of Non-Tax Receipts, including royalties on natural gas & crude oil, lease & license rent, Petroleum Levy, and Gas Development Surcharge is the responsibility of the Petroleum Division through its respective Directorates General. Despite the establishment of this framework, the Directorates under the Ministry of Energy (Petroleum Division) have faced

⁵¹ Section 2(ma) of Public Finance Management Act, 2019

persistent challenges in effectively overseeing the assessment and collection of Non-Tax Receipts.

The framework for managing receipts of Royalty on Natural Gas, Royalty on Crude Oil, Lease and License Rent, Petroleum Levy, and Gas Development Surcharge was framed in 1949 and 1967. By the passage of time the government refined and amended the rules in the best interest of stakeholders. However, despite these efforts, the core issue of ineffective monitoring and management of these receipts has remained unresolved.

Currently, the monitoring process generally relies on the submission of monthly statements and returns from exploration and production (E&P) companies, refineries, oil marketing companies (OMCs) and gas companies. These entities report the non-tax revenue they deposited, but the Petroleum Division's wing dealing with receipts primarily depend on the data provided by these companies. This reliance limits the Directorate's ability to independently assess the dues, payments, and outstanding Non-Tax Receipts, thus impeding accurate tracking and verification.

A key challenge in this process is the absence of penal provisions in the relevant rules, coupled with a shortage of dedicated human resources within the Directorates. This combination hampers the timely collection and accurate tracking of Non-Tax Receipts. Moreover, the absence of an automated system exacerbates these issues.

The combined impact of limited human resources, reliance on self-reported data, and the absence of automation has highlighted the growing importance of addressing these issues. Weak internal controls and oversight within the Petroleum Division have severely undermined the efficiency and reliability of Non-Tax Receipts assessment and collection. These challenges, as repeatedly identified in successive audit reports, have remained unresolved year after year. The continued recurrence of the same irregularities is a serious cause for concern.

1.3. Establishing the Audit Theme

1.3.1. Reasons of selection

The audit selected the topic of monitoring mechanisms for the collection of Non-Tax Receipts due to its critical importance in generating revenue for the federal and provincial governments. These non-tax revenues involved substantial financial transactions, primarily collected from various exploration and production (E&P) companies, refineries, oil marketing companies (OMCs) and gas companies. Improper monitoring could have resulted in financial repercussions for both federal and provincial governments. For instance, Royalties on Natural Gas & Crude Oil, and the Gas Development Surcharge were paid directly to the province where the wellhead was located.

The thematic audit focused on factors due to their relevance and potential impact on the effective management and oversight of financial resources. This approach aimed to enhance transparency, ensure compliance, and strengthen revenue collection mechanisms for Non-Tax Receipts.

1.3.2. Purpose / Objectives

The theme incorporated an analysis of the process of collection and monitoring of Non-Tax Receipts. Since the whole process is carried out by the government through its designated offices, any mismanagement has a direct impact on consolidated fund or finance of provinces. It is, therefore, imperative that monitoring mechanism and collection process be analysed and examined. The report will be placed before the Parliament for discussion on the matter to bring improvements to monitoring and collection of Non-Tax Receipts.

1.3.3. Scope

Audit was focused on Non-Tax Receipts relating to hydrocarbons, which is administered by the Director General (PC), Director General (Oil) & Director General (Gas). The thematic audit was probed at horizontal level i.e. Directorate General (PC), Directorate General (Oil), Directorate General (Gas). The period of thematic audit was covered from 01.07.2023 to 30.06.2024. On the basis of desk audit carried out at the Directorate General of Audit, Petroleum and Natural Resources, Lahore, following TORs were devised;

- i) To review legal framework for identifying and address loopholes in the legal framework governing the collection and monitoring of Non-Tax Receipts;
- ii) To assess whether Petroleum Division has automated system like FBR to examine amount due, paid and balance amount in respect of Non-Tax Receipts;
- iii) To verify whether E&P/Refinery/OMCs/Gas Utility Companies submit relevant record to Petroleum Division for scrutiny;
- iv) To ascertain whether due amount of Non-Tax Receipts was calculated correctly;
- v) To determine whether due amount of Non-Tax Receipts was collected in full.
- vi) To evaluate whether Petroleum Division has any mechanism to know the receivable amount;
- vii) To confirm whether collected non-tax receipt amount was forwarded to relevant quarters on timely basis; and
- viii) To check whether inadmissible claims were adjusted against Non-Tax Receipts.

On the basis of TORs, following areas of the theme were identified for audit:

- Legal Framework
- Automated System (CMS)
- Assessment of Non-Tax Receipts
- Collection of Non-Tax Receipts
- Mechanism for calculation of receivable amount
- Timely Submission to relevant quarters.

2. Legal frame work governing the theme

The collection and monitoring of Non-Tax Receipts is governed through following legal frame works:

- i) Mines and Oilfields and Mineral Development (Government Control) Act, 1948, Pakistan Petroleum (Exploration and Production) Rules, 1949, 1986, 2001, 2009 and 2013;

- ii) The Natural Gas (Development Surcharge) Ordinance 1967 and Natural Gas (Development Surcharge) Rule, 1967; and
- iii) Petroleum Products [Petroleum Levy] Ordinance, 1961 and Petroleum Products (Petroleum Levy) Rules, 1967.

3. Stakeholders and governmental organizations identified as directly/indirectly involved

Following are the major stakeholders; the Non-Tax Receipts have direct impact on these:

- Ministry of Energy (Petroleum Division)
- Ministry of Finance
- Provincial Governments
- Oil and Gas Regulatory Authority
- Companies included E&P Companies, Refineries, OMCs and Gas companies
- Public at large

4. Role of important organizations

- i) Ministry of Energy (Petroleum Division) oversees matters related to oil, gas, and minerals at national and international levels and collects Non-Tax Receipts through its directorates. The Directorate General (Petroleum Concessions) regulates upstream exploration and production activities, collecting Royalties on Crude oil and Natural Gas, as well as License / Lease Rent. The Directorate General (Oil) collects the Petroleum Levy (PL) from refineries and oil marketing companies, while the Directorate General (Gas) collects the Gas Development Surcharge from gas companies;
- ii) Ministry of Finance (Provincial Finance Wing) is responsible to distribute Non-Tax Receipts i.e. Royalty, GDS etc. to the provinces according to share communicated by the Ministry of Energy (Petroleum Division);

- iii) Companies: Exploration and Production Companies are liable to pay Royalty and Lease/ License rent as per Rules and Petroleum Concession Agreements. Refineries and OMCs deposit Petroleum Levy into government treasury and Gas companies pay GDS to the government; and
- iv) Oil and Gas Regulatory Authority (OGRA) is regulator of downstream sector of oil and gas sector. OGRA is also responsible to notify wellhead, prescribed and sales price of petroleum products.

5. Organization's Financials

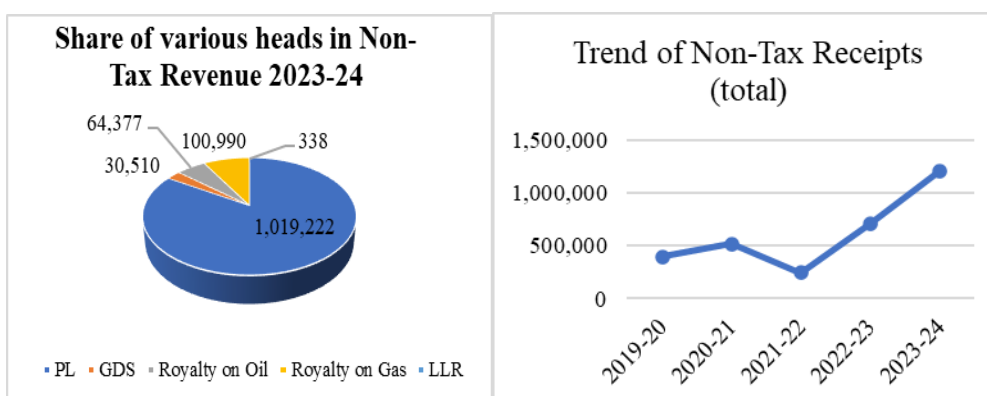
The Petroleum Division collected Non-Tax Receipts over the last five years as given below:

Non-Tax Revenue Collection for Previous Five Years

(Rs in million)

Year	Petroleum Levy on oil	Development surcharge on Gas (GDS)	Royalty on Crude Oil	Royalty on Natural Gas	Lease and License Rent
2023-24	1,019,222	30,510	64,377	100,990	338
2022-23	579,910	10,672	50,182	70,130	448
2021-22	127,483	20,372	43,485	50,924	325
2020-21	424,856	22,523	22,406	48,511	571
2019-20	303,461	13,966	28,393	50,981	546

(Source: FCA June)



The share of various heads in Non-Tax Receipts highlighted the significant contribution of the Petroleum Levy i.e. 84% and Royalty on Crude Oil and Gas i.e. 13%, which together constituted the bulk of the revenue. However, overall, at national level, the collection of Non-Tax Receipts for the financial year 2023-24 was the 10% of total revenue generated by federal government as per annual budget statement 2024-25.

6. Field Audit Activity

6.1. Methodology

During the audit, the audit team adopted an integrated approach that involved comprehensive audit planning. This included defining clear audit objectives, establishing the audit scope, identifying conditions that could lead to errors or irregularities, highlighting issues of potential significance, and determining relevant audit criteria. The team also developed detailed field audit methodologies, incorporating compliance testing, substantive analysis, and computer-aided techniques to ensure a thorough and efficient audit process.

6.2. Audit Analysis

6.2.1. Financial trends

The synopsis of Non-Tax Receipts over the past five fiscal years given in table 1 exhibited significant fluctuation in collection of Non-Tax Receipts in the petroleum sector over the last five fiscal years, indicating both growth and instability across different revenue streams.

The most striking growth in Petroleum Levy on Oil was observed in past two financial years i.e., 355% and 76% respectively in FY 2022-23 and FY 2023-24. This surge is due to increase in rate of petroleum levy during these two years. Despite some growth in FY 2023-24, GDS collections fluctuated significantly, with a notable dip in FY 2022-23 compared to the prior year. The fluctuations in GDS were due to the circular debt. The royalties from crude oil and natural gas have shown steady increases over the five-year period, with natural gas royalties rising sharply in FY 2023-24. The contributing factor are increase in wellhead price of natural gas and discoveries under tight gas and marginal gas policies.

While there is evident growth in certain areas, the volatility observed in the GDS and Petroleum Levy indicates structural challenges. Policy reforms specifically regarding GDS administration and fuel pricing mechanisms are essential to stabilize these critical revenue streams. Additionally, improved governance and enforcement in royalty collection, particularly in natural gas, could further boost revenues.

6.2.2. Issues in Assessment Mechanism

Audit examined assessment mechanism in respect of Royalty on Natural Gas And Oil, Lease and License Rent, Petroleum Levy, and Gas Development Surcharge (GDS) as detailed below:

Petroleum Division's current practices for assessment of Royalty, Lease & License Rent, Petroleum Levy and Gas Development Surcharge revealed a structured flawed system that lacks adequate mechanisms for monitoring, and assessment of due, paid and pending payment of Non Tax Receipts. According to prevailed practices in the directorates for assessment of Non Tax Receipts, the companies self-determined the receipts payable and deposited the same into government treasury. Petroleum Division relied on the information provided by the companies rather than assessment of due, paid and receivable of receipts.⁵²

Production of hydrocarbons was not reconciled by Petroleum Division with E&P companies. Further, processed / refined hydrocarbons sold by the companies was also not monitored. Additionally, allowed deduction from due Non-Tax Receipts were also not verified by the directorates with companies.

The receipts related to Royalty, Lease and License Rent are governed by Petroleum Rules of 1949, 1986, 2001, 2009 and 2013. However, this current policy framework was for collecting of rents for lease and license areas lacked adequate mechanisms for monitoring, and assessment of due, paid, and pending Royalty, Lease and License Rent. The absence of monitoring framework in the above stated rules allows E&P companies to deposit Royalty and License / Lease Rent as per their convenience without any penal Clause. Without effective oversight, there is a high risk of discrepancies between reported and actual revenues, potential underpayments, and delayed receipts, all of which undermine financial accountability and transparency.

⁵² Para 16 of AIR of DG (PC)

Petroleum Levy was realized at the time of clearance of regulated products or in the case of local production at the time of sales of petroleum products. Further, in the case of in-house consumption of petroleum products by the refineries the applicable amount of Petroleum Levy had to be deposited into government treasury. Moreover, in the case of direct sales by OMCs without involving out retail outlet the distribution margin of retail outlet as notified by the government had to be deposited in government exchequer.

As per prevailed practices for depositing of Petroleum Levy on Local Petroleum Products, it is collected by the refineries and deposited in government treasury through sales tax return whereas Petroleum Levy on imported petroleum products is collected by FBR and recovered through good declaration submitted by oil companies at the time of clearance of products from the bonded warehouse. Although the collecting authority of Petroleum Levy is FBR, the DG (Oil) being the custodian of Petroleum Levy Ordinance 1961 failed to monitor/assess the Petroleum Levy. DG (Oil) did not have mechanism to reconcile production and import of Petroleum Products in the country with quantity on which Petroleum Levy was paid. DG (Oil) also did not have any mechanism to cross check quantity of petroleum products sold to direct sales customers/ own used by refineries for assessment of Additional Petroleum Levy payable by the refineries or OMCs. Further, the Petroleum Products (Petroleum Levy) Ordinance, 1961 does not contain Clauses for a late payment surcharge in order to ensure timely payment of Petroleum Levy. The absence of monitoring framework in the above stated rules allows refineries to deposit Petroleum Levy as per their convenience. A significant weakness of the current policy framework is the absence of a robust system to monitor, supervise, and assess Petroleum Levy. Without effective oversight, there is a high risk of discrepancies between reported and actual revenues, potential underpayments, and delayed receipts, all of which undermine financial accountability and transparency.

Gas Development Surcharge is differential margin between fixed sales price and prescribed price. Sector-wise fixed sales price is determined by Federal Government through DG (Gas) and prescribed price is determined by OGRA keeping in view cost of gas, operational expenses etc. of companies. The companies assess and deposit their GDS themselves. On monthly basis the companies submitted return to DG (Gas) containing detail of GDS payable and paid. DG (Gas) only relied on the information provided by the companies

concerned through returns and challans. There is no mechanism to ensure that due amount of Gas Development Surcharge has been collected and deposited timely by gas companies.

Significant Audit Observations:

Audit found ineffective assessment mechanism of Royalty in the Directorate General (PC) which depicted in form of non-reconciliation with E&P companies regarding verification of RPC and deposit challan of Royalty⁵³, short-deposit of Royalty due on sale of crude oil and Gas by 19 E&P companies amounting to Rs 31,357.241 million⁵⁴, late reporting to Finance Division for distribution of shares⁵⁵. Further, 06 E&P companies short deposited license and lease rent of Rs 73.343 million⁵⁶, the receipts relating to License/Lease Rent were booked under wrong head i.e. C03808 and non-availability of challans relating to receipts of License / Lease Rent showed weak financial management in Petroleum Division.⁵⁷

As regards Petroleum Levy, some structural flaws were noted during thematic audit; a refinery M/s Cnergyico reported short sold quantity of petroleum products as compared to monthly Sales Tax Returns. DG (Oil) did not take steps for recovery of petroleum levy.⁵⁸ Documents for refund of Rs 32.622 million were not available with the DG (Oil) office⁵⁹ and no mechanism was available to ensure that same rate of Petroleum Levy is refunded which was paid by the concerns at the time procurement of petroleum products. Adequate database was not available to exercise effective monitoring regarding assessment, collection and refund of Petroleum Levy on local / imported petroleum products. Ministry of Energy (Petroleum Division) is relaying only on the returns of OMCs / refineries and reconciliation statements of FBR treasury.

The issues of Gas Development Surcharge were found during thematic audit due to ineffective assessment mechanism in DG (Gas). There was no mechanism for assessment of Gas Development Surcharge due, paid and payable

⁵³ Para 16 of AIR of DG (PC)

⁵⁴ Para 2.1.4.2

⁵⁵ Para 6 of AIR of Financial Attest of DG (PC)

⁵⁶ Para 2.1.4.2

⁵⁷ Paras 1.1.2 & 1.1.3

⁵⁸ DP No. 3178

⁵⁹ Para 1.1.4

by the gas companies.⁶⁰ No proper efforts were made for amendments in GDS Ordinance despite directives by the PAC. A gas company made an adjustment of negative Gas Development Surcharge from payable Gas Development Surcharge against the spirit of GDS Ordinance for Rs 7,848.537 million on the plea that the fixed sales price on feed stock was less than prescribed price⁶¹.

6.2.3. Issues in collection mechanism

Due to ineffective collection mechanism, the recurring issues were remained available in Petroleum Division. The companies did not deposit government dues timely as no penal clause was available in most of respective rules as discussed below:

Royalty on Crude Oil and Gas: The Petroleum Rules of 1949, 1986, 2001, 2009, and 2013 govern royalty payments but feature varying mechanisms for deposit. Under Petroleum Rules 1949, companies must deposit royalties within two months after each term year. Petroleum Rules 1986 introduced a 10-day timeline for monthly royalty deposits. These rules 1949 and 1986 flexibility allowed companies to delay payments without penalties, effectively nullifying the requirement. Petroleum Rules 2001, 2009, and 2013 are more stringent, requiring payments within 45 days and introducing clauses for late payment surcharges. However, despite these improvements, the absence of an effective supervision mechanism undermines their implementation, allowing companies to delay payments without significant consequences.

License and Lease Rent: Similar challenges exist in the collection of license and lease rents, governed by the same sets of rules with varying rates. The inconsistent enforcement across these rules results in delayed revenue collection.

Petroleum Levy was governed under the Petroleum Products (Petroleum Levy) Ordinance, 1961. The Petroleum levy was deposited by the refineries through Sales tax cum payment challan in case of locally produced products. In case of imported products, it was deposited by filing the Goods Declaration by the importers. The Petroleum Products (Petroleum Levy) Ordinance, 1961 did not contain Clauses for a late payment surcharge in order to ensure timely

⁶⁰ Para 17 of AIR of DG (Gas)

⁶¹ DP No. 3160

payment of petroleum levy. However, Clause of late payment surcharge was inserted in Public Finance Management Act 2019 to ensure timely payment of Non-Tax Revenue.

DG (Gas) was responsible for collection of Gas Development Surcharge. According to Section 3(1) of 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, according to Rule 3(a) of Natural Gas (Development Surcharge) Rules, 1967, “every company shall deposit at the Government treasury the amount of development surcharge collected by it in respect of the collection during a calendar month within one month of the close of that month”.

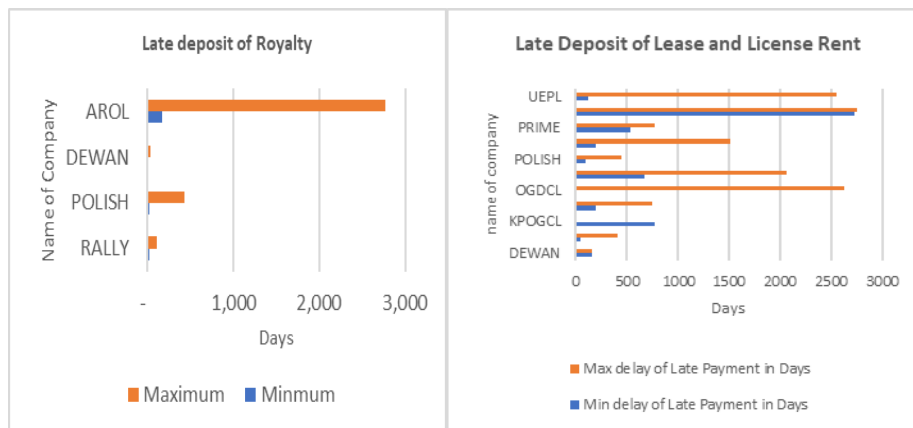
Natural Gas (Development Surcharge) Ordinance and Rules, 1967 does not convey any time limit for end consumers for payment to gas selling companies and no Clause of late payment surcharge for end consumers is included in order to ensure timely payment. Further, there are no Clause for adjustment of Gas Development Surcharge from GDS payable by the E&P company itself in cases where fixed sales price was less than prescribed price.

Significant Audit Observations:

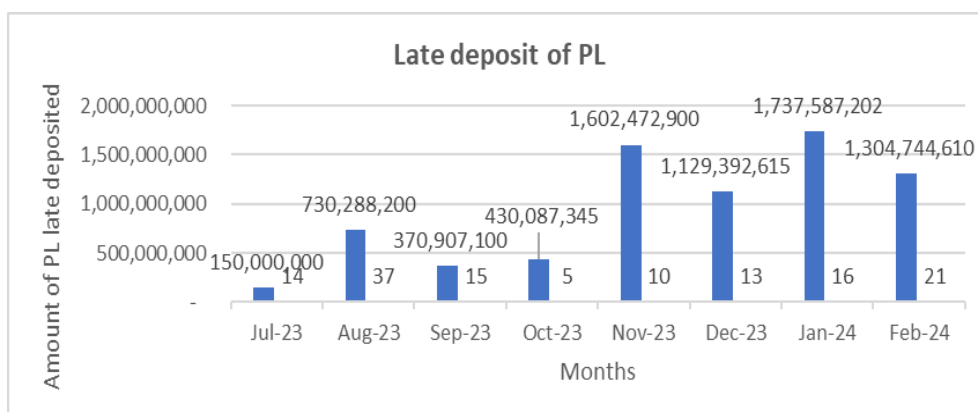
The audit found that due to the ineffective monitoring mechanism, several issues were identified in the collection of Non-Tax Receipts, including delays in royalty, license and lease rent, Petroleum Levy and GDS payments. These delays are largely due to gaps in the relevant rules and the absence of clear enforcement mechanisms, leading to financial losses for the government. Detail is given below:

- Due to weak monitoring, a fine of Rs 286.377 million was neither imposed nor collected from four E&P companies for Royalty delays of 15 to 2,772 days under the Petroleum Rules of 2001, 2009, and 2013.⁶² Similarly, 11 E&P companies delayed Lease and License Rent payments by 12 to 2,751 days, with no action taken by DG (PC) for late payments;

⁶² Para 2.1.4.2



- Weak monitoring and the absence of a late payment surcharge (LPS) in the Petroleum Rules of 1949 and 1986 resulted in Royalty of Rs 31,357.241 million remained receivable from E&P companies, as admitted by the companies. Additionally, 20 E&P companies delayed Royalty payments by 11 to 607 days, but DG (PC) took no action, leading to a negative impact on Provincial Government finances;⁶³
- A refinery i.e. M/s Cnergyico deposited Petroleum Levy with delay range of 01 to 64 days but no action was taken by DG (Oil) for late payment. FBR was collection agent of Petroleum levy which was paid in mode of Customs Act, 1969, and Sales Tax Act 1990. DG (Oil) did not reconcile the PL with FBR, this act allowed refineries flexibility to deposit refineries at their convenience;



⁶³ Para 2.1.4.2

- DG (Oil) did not initiate any action through legal amendments for the recovery of distribution margin from the refineries on their direct sales / own use. Weak monitoring mechanism resulted in price discrimination and non-recovery of distribution margin from the refineries Rs 20.611 million;⁶⁴
- A refinery short deposited Petroleum Levy of Rs 4,474 million on sales of petroleum products to OMCs as evident from the record of DG (Oil) in the months of October, December, 2023 and May, 2024.⁶⁵ No penalize Clause was invoked to refineries by DG (Oil) on late payment of petroleum levy in accordance with Clause 40D of PFM Act, 2019;
- The ineffective monitoring mechanism for the collection of Non-Tax Receipts led to the non-payment of a significant GDS amount of Rs 77,834.000 million by an E&P company selling natural gas to power companies. Despite receiving sale proceeds, the company withheld GDS payments, including outstanding amounts since 2019.⁶⁶ Additionally, three companies failed to deposit Rs 33,019 million in GDS billed for gas supplied during FY 2023-24, citing non-recovery from gas-buying companies. The rules reveal a gap, as they did not specify a timeline for sellers to remit gas charges, including GDS.⁶⁷ Moreover, gas companies were selling natural gas to IPPs but did not deposit GDS on monthly basis and adjusted the due amount of GDS against shortfall in revenue requirement determined by OGRA at year end; and
- An E&P company deposited GDS of Rs 3,145.747 million with delay ranging of 121 to 215 days from the billing month. The Directorate General (Gas) did not take any action, citing the amended rules which state that GDS was payable within one month of receipt from the consumer, but no specific time limit was prescribed for payments by gas buying companies.

6.2.5 Operational Management Issues

Effective operational management is crucial for ensuring the accurate collection and monitoring of Non-Tax Receipts, which form a significant revenue stream for the government. To enhance efficiency and oversight,

⁶⁴ DP No. 3173

⁶⁵ DP No. 3177

⁶⁶ Para 2.3.4.1

⁶⁷ Para 2.1.4.2

automation and HR management play a vital role in streamlining processes and reducing the risk of errors or delays.

DG (PC) has implemented the Concessionary Management System (CMS) to monitor activities related to hydrocarbons, reconnaissance, exploration, and production. However, the DG (Oil) and DG (Gas) offices lack automated systems for managing Non Tax Receipts. Despite the CMS initiative, significant automation issues remain. The financial module in CMS, designed to enable E&P companies to report data on royalties, rents, and other payments, remains non-functional due to the failure to establish a seamless connection between CMS and E&P company databases. The absence of real-time production and sales data further complicates financial oversight. As a result, DG (PC) faced challenges in assessing payment statuses accurately and promptly.

Moreover, operational inefficiencies are exacerbated by improper HR management within the Policy Wing of the Petroleum Division. The staffing situation across the DG (PC), DG (Oil), and DG (Gas) offices was as follows:

Sr. No.	Name of Office	Sanctioned Strength	Available Strength	Vacant	Officers / officials of companies working on attachment basis
1	DG(PC)	48	32	16	12
2	DG(Oil)	48	30	18	04
3	DG(Gas)	40	31	9	10
Total		136	93	43	26

This staffing shortfall in all three DG offices has led to delays in critical processes, including the granting and renewal of licenses, extensions, declarations of commerciality, test production permissions, gas and oil allocations, and finalization of GSAs and COSAs. Moreover, there is a shortage of professionals for evaluating ERRs / FRRs, determining consumer prices, field economics, and field development plans, with all five Director (Technical) positions vacant across the directorates. Additionally, 26 officers / officials from companies are working in the Policy Wing on an attachment basis as a stopgap measure, creating a conflict of interest as these personnel are dealing with matters related to the companies they are employed by.⁶⁸

⁶⁸ DP No. 3312

7. Departmental Response

DG (PC) stated that an amount of Rs 18,166 million had been recovered including adjustment of Rs 4,000.000 million, while Rs 13,191.000 million was still under recovery. The audit contended that out of the Rs 18,166.000 million, DG (PC) had provided an adjustment of Rs 4,000.000 million made by the E&P companies against Royalty due, which DG (PC) accepted without any thorough analysis of the Royalty due, paid, or adjusted. This clearly indicates that DG (PC) lacks a mechanism for the proper assessment and reconciliation of royalties due, paid, and payable. Moreover, issues of non/short realization of Royalty had already been highlighted in previous audit reports, yet DG (PC) has failed to develop an effective assessment and collection mechanism. Regarding the non/short payment of license and lease rent, DG (PC) reported that out of Rs 73.343 million, only Rs 1.300 million had been recovered. The primary reason for the non / short realization of rent was the pending extensions of licenses and leases.

DG (Oil) reported that Petroleum Division had requested the refinery to deposit the outstanding amount related to the short payment pointed out by Audit. However, the refinery explained that difference had solely arose because of the quantity of local/ import / purchase and direct sales was not included in the sales quantity reported to DG (Oil). In other case, DG (Oil) also addressed the issue of short payment of Petroleum Levy amounting to Rs 4,474 million with the refinery. The refinery reported that short payments for the month of October, December, 2023 and May, 2024 had been cleared in November, 2023, April, 2024 and July, 2024 respectively. However, the late payment surcharge has not been recovered yet, as the matter is sub judice in the Sindh High Court. This demonstrated negligence on the part of DG (Oil), as the administrator of the Petroleum Levy, who relied on the information submitted by refineries and oil marketing companies (OMCs) instead of developing an independent mechanism to reconcile production, imports, and sales, ensuring accurate calculation of the Petroleum Levy due, paid, and payable by refineries and OMCs.

DG (Gas) replied that non-realization of GDS is mainly due to the circular debt and M/s MPCL had deposited the GDS of Rs 1,341.002 million. Further, the issue of negative GDS adjustment on account of difference of sales

price and prescribed price had been addressed in the proposed amendments in Natural Gas Development Surcharge Ordinance, 1967. The proposed amendments are under process for finalization and submission to the relevant forum. The audit asserts that gas companies recover invoice amounts in tranches, prioritizing the adjustment of gas costs and taxes, while leaving the recovery of the GDS for last. As per rules, no limit is stipulated for payment for payment of GDS by gas buying companies. In this regard DG (Gas) lacks a mechanism for propitiate deposit of GDS when the companies recover the outstanding dues in tranches.

8. Recommendations

Based on the audit findings, following recommendations are proposed for effective monitoring and improve Non-Tax Receipts collection mechanism:

- Petroleum Division need to strengthen assessment and collection mechanism to assess due amount or to countercheck the amount deposited by the companies;
- DG (PC) should develop a mechanism to verify production & sales of hydrocarbons, RPC, gas own use and flaring reported by E&P companies through field visits, reconciliation with hydrocarbon buyers, verification of RPC from vouchers;
- DG (Oil) should devise the mechanism for keeping the source documents relating Petroleum Levy receipt and refund instead of totally on FBR. Department shall ensure that Petroleum Levy should be paid at rate on which the same was collected besides taking up the matter with Finance Division / CGA to open separate head of account for refund of Petroleum Levy. Additionally, DG (Oil) should develop the system which portrays data on the basis of which due receipts can be calculated and compared to the actual collection;
- Due amount of Gas Development Surcharge should be calculated by DG (Gas) office on the basis of estimated sales finalized by OGRA in Estimated Revenue Requirements besides ensuring its collection during the year. Furthermore, DG (Gas) should develop the system which portrays

data on the basis of which due receipts can be calculated and compared to the actual collection;

- DG (Gas) is required to develop a mechanism for checking actual sales proceeds collected from buyer and ensure deposit of GDS on proportionate basis; and
- DG (Gas) should made efforts for amendments in GDS Ordinance to stop gas companies from negative adjustment and payment timeframe for gas buying companies.

9. Conclusion

The audit findings highlighted critical deficiencies in the assessment and collection of Non-Tax Receipts in the petroleum sector, resulting in revenue losses and financial mismanagement. Reliance on companies' self-reported data without independent verification increases the risk of underreporting and delayed payments. The lack of a comprehensive mechanism to assess and reconcile due amounts in DG (PC), Gas, and Oil further hampered effective risk management and operational efficiency. Ineffective collection mechanisms and gaps in the regulatory framework, such as the absence of penal clauses in older Petroleum Rules, contribute to delayed payments and substantial revenue shortfalls. Weak monitoring by regulatory bodies like DG (PC), Gas, and Oil exacerbated these issues, allowing companies to manipulate revenue declarations and delay payments.

Inadequate operational management, such as staffing shortages and insufficient automation, further weakened the Petroleum Division's ability to enforce compliance. The non-functional financial module in the Concessionary Management System and reliance on company personnel, which created conflicts of interest, exacerbated these issues. Addressing these challenges requires urgent reforms, including automation of financial monitoring, hiring skilled professionals, and implementing stringent regulatory controls. Strengthening governance structures and ensuring independence in regulatory oversight will enhance efficiency and safeguard the government's revenue streams.

Overall, Thematic Audit of the Monitoring Mechanism for Collection of Non-Tax Receipts of Petroleum Division has provided valuable insights into the

shortcomings of the current system. The recommendations presented in the audit report can serve as a roadmap for Petroleum Division for effective monitoring and improvement in Non Tax Receipts collection mechanism. The implementation of the recommendations would not only improve monitoring of Non- Tax Receipts but also build the trust of stakeholders and helps in maximizing the government's revenue by increase in collection. This revenue can then be utilized for the development of the country's infrastructure, social welfare projects, and economic growth.

IMPACT AUDIT



Chapter-5

Impact Audit

Impact of provision of Synthetic Natural Gas (SNG) to Gilgit City and Kot Ghulam Mohammad (Sindh) through installation of LPG Air Mix Plants

5.1. Introduction

Gilgit

Gilgit is the capital city of Gilgit-Baltistan with a population of 284,337⁶⁹. The city is located in a broad valley near the confluence of Gilgit and Hunza rivers. It is a major tourists destination in Pakistan serving as a hub for trekking and mountaineering expeditions in the Karakoram mountain range.

Natural gas via pipeline is not available in the hilly areas of Gilgit-Baltistan for domestic and commercial purposes. Wood and LPG cylinders are being used as fuel for energy. The use of wood as fuel has resulted into massive deforestation. Due to the high consumption of the wood during extreme winter season, the environmental pollution remains high in the Gilgit city.

In this regard, the Government of Pakistan, has geared up the project for provision of Synthetic Natural Gas (SNG) at the household level through installation of LPG Air Mix Plant in Gilgit. Provision of gas through installation of LPG Air Mix Plant will not only help save the environment but also decrease deforestation. Economic Coordination Committee (ECC) of the Cabinet vide its decision dated April 19, 2016, granted approval to set up LPG Air Mix Plant at Gilgit through SNGPL. The cost of the project i.e. Rs 1,257.000 million was approved by the BoD of the SNGPL. Consequently, the project was completed and commissioned in January, 2023.

Kot Ghulam Mohammad (Sindh)

Kot Ghulam Muhammad is a Taluka of Mirpur Khas (Sindh) with a population of 310,142⁷⁰. It is situated west of Samaro Town, north of Digri, and south of Mirpur Khas. It is an agricultural-cum-industrial area. The majority of population is engaged in agriculture and livestock professions. Being an agro-

⁶⁹ Pakistan Bureau of Statistics (National Census, 2017)

⁷⁰ Pakistan Bureau of Statistics (National Census, 2023)

based Taluka, the community is largely dependent upon the use of traditional sources of energy including wood and coal to meet domestic energy needs leading to environmental pollution.

In 2009, Prime Minister of Pakistan directed the installation of LPG Air Mix Plants in the far-flung areas of Sindh where the distribution of natural gas through conventional pipelines was not feasible. Petroleum Division engaged SSGC to provide SNG in the area at an estimated cost of Rs 297.048 million. In compliance with the Prime Minister's directions, SSGC started the project for the installation of the Kot Ghulam Muhammad LPG Air Mix Plant in 2009 and was commissioned in 2011.

5.1.1 Background of Impact Audit

The Auditor-General of Pakistan takes keen interest in the projects and initiatives taken by the federal as well as provincial governments for the welfare of general public. Impact Audit aimed at assessing the effects of government initiatives on the masses of Pakistan in different fields. Accordingly, the Directorate General of Petroleum and Natural Resources conducted Impact Audit of two significant projects introduced by Petroleum Division to assess the impact of these initiatives on the people of target areas. Findings of Impact Audit help the stakeholders' understanding the impact of such initiatives in systematic and objective manner which aims at service delivery, positive effect on the plight of target population through efficient financial management and good governance.

Gilgit has not received any gas pipeline infrastructure due to its peculiar geographical contours. Alternatively, LPG through cylinders, wood, kerosene oil are commonly used for fuel purposes. The project of LPG Air Mix Plant in Gilgit was installed by SNGPL and in Kot Ghulam Muhammad by SSGC, with the aim of providing gas facility through pipeline.

5.1.2 Role of Project for Provision of SNG through installation of LPG Air Mix Plants

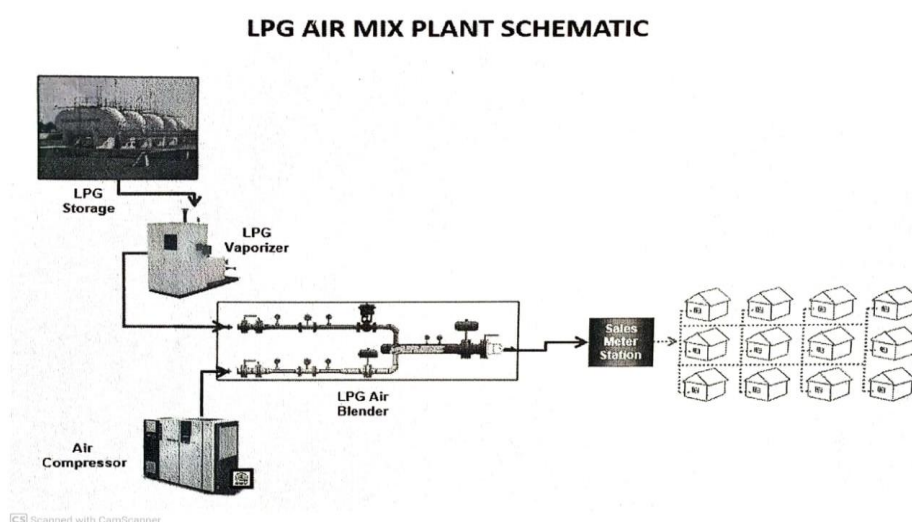
Provision of domestic energy is considered a basic amenity and the installation of LPG Air Mix Plants at Gilgit and Kot Ghulam Muhammad would provide a sustainable option for the provision of domestic energy, reducing reliance on wood. The Government of Pakistan (GoP) took the initiative to provide burning fuel through a proper distribution channel at the household level

and adopted the technology of the LPG Air Mix Plants. This would reduce deforestation and air pollution. The project would also enhance the overall socioeconomic and ecological conditions of the area.

5.2 Overview

The LPG Air Mix Plant at Gilgit is operated by SNGPL while the LPG Air Mix Plant at Kot Ghulam Muhammad by SSGC. Both the projects are supplying SNG to selected localities of targeted cities.

LPG is procured from E&P companies and by import. It is supplied in bulk through bowsters to the SNG Plants sites where it is stored in LPG storage tanks. LPG is then re-gasified and mixed with air to match properties equivalent to natural gas. The LPG air mix, also known as Synthetic Natural Gas (SNG), is supplied to consumers through a pipeline distribution network subsequently. The following schematic shows the flow of LPG to SNG and then to domestic consumers:



Program Deliverables & Objectives

LPG Air Mix Plant-SNGPL, Gilgit

The Project envisages the provision of SNG to 14,000 households in Gilgit city at the current installed capacity through a pipeline network. This will

not only meet the energy needs of the local residents but also preserve the natural forests of Gilgit. The main objectives of the project are as follows:

- To provide sustainable living standards and reduce the ever-increasing demand of wood for fuel;
- To provide alternative fuel at economical rates;
- To reduce deforestation; and
- To minimize air pollution thus providing clean living environment for the citizens.

LPG Air Mix Plant-SSGC, Kot Ghulam Mohammad

The Project for the supply of SNG to Kot Ghulam Muhammad, District Mirpur Khas, was started with the objective of meeting the fuel requirements of the area through LPG Air Mix Plant. The supply of natural gas to the area through pipeline network required enormous funding as the main pipeline of natural gas being far from the target area with following objectives:

- To provide SNG to 3,200 prospective consumers of Kot Ghulam Muhammad and Mir Ji Landhi, District Mirpur Khas;
- To improve the living standards of local communities;
- To enhance economic growth and development in the region; and
- To reduce dependence on wood promoting a clean living environment.

5.3 Scope and Methodology

5.3.1 Scope

The Impact Audit was focused on the residents of Nageral, Kashrote, Soni Kot, Haider Pura, and Majini Mohala of Gilgit city as well as Kot Ghulam Mohammad where SNG was provided through the installation of LPG Air Mix Plant. The audit measured the level of performance achieved with the initiative, as outlined below:

Condition with

SNG was being supplied to 234 consumers in selected localities of Gilgit and 2,479 consumers in Kot Ghulam Mohammad. The project has benefited to the residents having no access to natural gas. The provision of gas has improved the social and economic conditions, as well as the environment of the area.

Further, the intervention has resulted in reduced fuel cost and a better in-house environment. Consequently, the intervention has had a positive impact on the lives of the people in the area. Furthermore, impacts of the initiative have been categorized under social impact, economic benefits, environmental benefits, and deforestation in the key audit findings.



LPG Air Mix Plant- Gilgit



LPG Air Mix Plant Kot Ghulam Muhammad, District Mirpur Khas, Sindh

Audit estimated the level of performance that would exist in the absence of the initiative. Moreover, due to absence of gas distribution network in other areas of the city, households have been facing same social, economic and environmental issues as given below:

Condition without

As per survey, the localities inhabited by a large number of people were relying on LPG cylinders, wood, electricity and kerosene oil, etc., for cooking and heating purpose. The deforestation resulted in climatic issues due to excessive burning of wood. In areas where SNG could not be provided witnessed use of alternative fuels.



During survey of Gilgit city, opinions were sought both from SNG consumers and non-consumers. The survey revealed that prior to installation of Air Mix Plant the energy matrix of the area was as follows:

- i) 70% of households were using wood and LPG alternatively;
- ii) 16% dependent upon coal, kerosene oil, and electricity;
- iii) 11% reliant on LPG; and
- iv) 3% were using wood only as their primary fuel source.

However, during winter season in Gilgit, the reliance on wood for heating purposes increased up to 90% of the households. According to the representative of the GB Environmental Agency, Gilgit city was subject to dense smoke due to high consumption of wood during this time with the Air Quality Index (AQI) recorded as high as 600 to 700 AQI.

The Survey of Kot Ghulam Muhammad city, revealed that prior to installation of Air Mix Plant the energy matrix of the area was as follows:

- i) 83% of households were using wood;
- ii) 11% reliant on LPG; and
- iii) 6% of households were using wood and LPG alternatively.

5.3.2 Identification of rival causes

Besides the provision of gas through the LPG Air Mix Plant, the Forest Department and Environmental Protection Agencies of Gilgit-Baltistan and Sindh, are responsible for reduction of deforestation and air pollution:

i) Forest Department Gilgit

The Forest Department plays a crucial role in maintaining forests in a way that is environmentally, economically and socially beneficial. The Gilgit-Baltistan Assembly also passed the Gilgit-Baltistan Forest Act, 2019 to provide for the protection, rehabilitation, establishment, sustainable use, conservation and management of forests as well as the role played by forests in the socio-economic and ecological development of Gilgit-Baltistan. Accordingly, any person who cuts or burns any tree or brushwood or otherwise damages the same in contravention of any provision of the Act shall be punishable with imprisonment for a term which may extend to three years or with a fine which may extend to five hundred thousand rupees or with both in addition to such compensation;

ii) Environmental Protection Agency GB

The main objectives of the EPA-GB are to provide protection, conservation, rehabilitation, and improvement of the environment, prevention and control of pollution and promotion of sustainable development. The EPA launches campaigns during the winter season to raise awareness among people to avoid burning wood, plastic waste and

used motor oil for heating purposes as these have a negative impact on the environment as well as health; and

iii) **Sindh Environmental Protection Agency**

The main objectives of SEPA are to provide for the protection, conservation, rehabilitation and improvement of the environment the prevention and control of pollution and the promotion of sustainable development. As per the Sindh Environmental Protection Agency guidelines brick kilns should operate at least five kilometres away from residential areas. However, SEPA did not take action against the violation of these guidelines as brick kilns are operating in the region without the Environmental NOC which is mandatory.

5.3.3 Methodology

The Impact Audit is based on primary and secondary data collection methodology using surveys, interviews and obtaining data from the concerned departments as tools.

- Comparative analysis, i.e., “before and after” the intervention, was carried out to assess the impact of the intervention;
- Rival causes were identified and assessed;
- The following places / offices were visited:
 - i) SNGPL head office and Air Mix Plant at Gilgit for collection of data;
 - ii) Environmental Protection Agency-GB (EPA-GB) for understanding environmental issues;
 - iii) Forest Department of GB for understanding the causes of deforestation;
 - iv) SSGC head office and Air Mix Plant at Kot Ghulam Muhammad for the collection of data; and
 - v) Sindh Environmental Protection Agency Regional Office, Mirpur Khas.

- Questionnaire and interview based survey of SNG consumers and non-consumers were conducted to determine the factual position of “before and after” the intervention for the provision of SNG through Air Mix Plants; and
- The data collected from the questionnaires, interviews and recorded information were analysed.

The Impact Audit sought to enquire whether the supply of SNG had a tangible impact on the people of chosen localities or not. To assess this condition a questionnaire was developed and distributed among the consumers. Interviews from 990 consumers and 740 non-consumers from Gilgit and Kot Ghulam Muhammad were conducted to ascertain whether the project achieved its desired goals.

5.4 Findings

Following are the key findings of Impact Audit assessment based on analysis of various data collection tools as enumerated above:

5.4.1 Levels of Satisfaction

According to the results of the survey / interviews in Gilgit city, 91% of residents responded that they were satisfied with the government initiative of providing SNG through the installation of the LPG Air Mix Plant, while the remaining 9% of respondents were not satisfied with the intervention. Similarly, the results of interviews/surveys with Kot Ghulam Muhammad consumers revealed that 97% of respondents were satisfied with the provision of SNG, and 3% of respondents were not satisfied with the intervention.

5.4.2 Social and economic impact

LPG Air Mix Plant-Gilgit

Ninety eight percent (98%) of the respondents expressed that it was easier to use SNG for cooking compared to other sources like LPG, wood, kerosene oil, electric stoves/heaters, etc.

Sixty one percent (61%) of consumers expressed that the problem of carrying LPG cylinders for refilling in severe cold and snowy roads was solved. 8% of consumers responded that their problem of purchasing, carrying, and

storing wood/timber for cooking was resolved. 23% of consumers replied that problems related to domestic fuel, such as LPG, wood, and other alternative fuels, were resolved. Meanwhile, 3% of consumers stated that no problem was solved, and 5% did not respond to the question.

Besides the above social impacts, employment opportunities for eight (8) skilled and two (2) unskilled workers were also observed, enhancing the benefits for the locals who were in dire need of income.

LPG Air Mix Plant-Kot Ghulam Muhammad

Ninety nine percent (99%) of the people expressed their satisfaction with this initiative as it improved social life, as household energy was previously obtained from fuelwood and LPG cylinders.

Eighty seven percent (87%) respondents informed that the project had improved their lives due to reduction in smoke, significantly decreasing respiratory diseases, asthma, and similar conditions. The audit team interviewed the Medical Superintendent of Taluka Hospital, who expressed satisfaction with the intervention, noting a noticeable decline in respiratory diseases and asthma.

Ninety-eight (98%) of the consumers expressed that the value of property and rental rates for market shops had increased significantly because of the intervention.

5.4.3 Economic Benefit

LPG Air Mix Plant-Gilgit

The Gilgit region faces the issue of high prices for LPG, which is commonly used as a substitute for firewood. LPG prices in Gilgit-Baltistan were higher compared to other cities of Pakistan due to its remote location. This puts financial pressure on households that rely on LPG for their energy needs.

As per the audit survey, 48% of consumers believed that SNG was cheaper than other fuel sources, while 14% disagreed, and 38% believed that there was no substantial difference. Out of the 48% (who claimed that expenditure on fuel/energy had reduced), 76% responded that the reduction in their monthly expenses was between Rs 1,000 to 3,000, while the remaining 24% said that their monthly expenses were reduced up to Rs 1,000 after getting an SNG connection.

On the other hand, out of the 38% (who claimed that SNG was expensive), 6% of consumers reported that the increase in their monthly expenses was between Rs 3,000 to 6,000, while 73% population reported that expenses increased from Rs 1,000 to 3,000, while the remaining 21% of consumers believed that their expenditure had increased from Rs 500 to 1,000 after the provision of SNG.

LPG Air Mix Plant-Kot Ghulam Muhammad

Ninety nine percent (99%) of consumers believed that SNG was cheaper than other fuel sources and 1% informed that there was no substantial difference. 92% of the respondents replied that their monthly expenditure decreased by Rs 1,000 to 3,000 due to the usage of SNG. Further, housing schemes were also launched after this initiative. Development in the area increased rental income for the people, and there was also a significant increase in property value. Lastly, economic activity flourished establishment of local markets. As a result, employment opportunities were created for the people, as many moved from rural to urban areas after the commissioning of the LPG Plant at Kot Ghulam Muhammad.

5.4.4 Environmental Impact

LPG Air Mix Plant-Gilgit

The LPG Air Mix Plant is designed to provide SNG to 14,000 consumers, extendable to 27,000 consumers in Gilgit city. However, only 234 gas meters were installed till the completion of the audit survey. Therefore, the main objectives of the project, i.e., reduction in deforestation and air pollution, provision of a healthier living environment, and minimization of the environmental impacts of wood consumption, could not be completely achieved.

Seventy one percent (71%) of consumers expressed that air pollution decreased after the provision of SNG as an alternate fuel source to firewood, leading to less deforestation. While, 13% of consumers argued that this would not significantly contribute to lowering pollution due to the continuous use of wood in the winter season for heating purposes, and the remaining 16% of consumers remained neutral. 90% of consumers replied that they feel the air quality in their houses improved after the SNG connection compared to using other fuel sources like wood, while 10% opposed this.

LPG Air Mix Plant-Kot Ghulam Muhammad

Ninety nine percent (99%) of the respondents revealed that air pollution was decreased after the provision of SNG and indoor smoke which was major cause of respiratory issues, asthma symptoms and eye infections.

Fifty percent 50% of the respondents were dissatisfied with the intervention. In their opinion, the provision of SNG did not have any positive environmental impact because non-consumers continued to use wood, as a large number of people did not have a gas connection. On the other hand, a number of brick kilns operating in the vicinity of the area, generating pollution.

5.4.5 Impact on deforestation

LPG Air Mix Plant-Gilgit

Sixty six percent (66%) of participant replied that the major cause of deforestation was the use of wood for the construction of houses, furniture, and heating of houses, while 34% of respondents believed that fuelwood solely contributes to deforestation.

Fifty seven percent (57%) responded that the project will not help in mitigating the effects of deforestation, as people will continue to use wood / timber in the winter season for heating purposes along with heavy use of wood in construction and furniture, 32% responded that the use of SNG would have a positive impact on deforestation and 11% of respondents remained neutral.

LPG Air Mix Plant-Kot Ghulam Muhammad

Ninety nine percent (99%) responded that the project would help in mitigating the effects of deforestation and only 1% of respondents replied that the provision of SNG would not affect deforestation.

Summary of key audit observations

As per the data available and the responses received during the survey / interviews of the consumers and non-consumers, the following observations / issues were noticed:

LPG Air Mix Plant-Gilgit (SNGPL)

- i) Delay in the installation of the LPG Air Mix Plant;

- ii) Overall progress and implementation of the initiative was slow;
- iii) Non-delivery of demand notices to the applicants;
- iv) Non-installation of meters for the applicants after the deposit of demand notices;
- v) Non-commissioning of service lines to 619 applicants;
- vi) Non-resolution of the matter regarding the inclusion of GST in the gas bills; and
- vii) Non-expansion of the distribution network for the optimum utilization of the LPG Air Mix Plant.

LPG Air Mix Plant-Kot Ghulam Muhammad (SSGC)

- i) Non-provision of gas to the residents, thus depriving them of an alternative energy sources i.e. SNG;
- ii) Failure to provide uninterrupted gas to the consumers, compelling the users to rely on alternate sources of energy;
- iii) Existence of illegal distributors of LPG cylinders;
- iv) Due to a paucity of resources in the distribution department, there is loose monitoring of overhead leakages, which is dangerous for the lives of the people; and
- v) Pressure Regulating Stations (PRS), which are neither properly caged nor have boundary walls, pose a serious threat to pedestrians.

Summary of discussion with management

The management of SNGPL responded to the impact audit findings, stating that the project implementation activities and mile stones were essential procedural, codal and legal formalities inherent to engineering projects. They emphasized that fulfilling these requirements was mandatory before commencing the project. Furthermore, the slow progress in the installation of the plant was due to Covid-19, which was beyond the control of the company. Demand notices had been dispatched to the SNGPL Gilgit office to be delivered to the consumers. Teams along with requisite material were deputed for the installation of domestic meters immediately after codal formalities were fulfilled.

As per the opinion of SNGPL's tax consultant, the Sales Tax Act, 1990 was adopted and enforced in GB; therefore, gas supplied in GB was taxable under the Act.

The SSGC's management agreed with the findings of Audit and responded that due to the imposition of a moratorium by the Government of Pakistan new connections have been stopped even though there is huge demand of SNG connections. As far as the provision of uninterrupted gas to the consumers is concerned, efforts are underway to ensure consistent supply. Moreover, there is a shortage of funds due to which maintenance work has been disrupted.

5.5 Conclusion

The basic objective of the provision of domestic energy in Gilgit through the installation of the LPG Air Mix Plant was to control deforestation and ensuring environmental sustainability. The plant has a capacity of 14,000 connections extendable up to 27,000 connections. However, the survey data revealed that the distribution network was laid in a few selected localities, i.e., Nageral, Kashrote, Soni Kot, Haider Pura, and Majini Mohala of Gilgit city and 235 gas connections were provided till the finalization of audit report. To summarize the audit findings of this report 91% of the consumers showed satisfaction with the provision of SNG. The positive impact was apparent in all aspects of the lives of the people in the area whether social, economic or environmental. Moreover, if the management of SNGPL successfully achieves maximum utilization of SNG the project will provide clean, affordable and sustainable energy to thousands of households in the city while preserving the environment and accelerating economic activity.

The people of Kot Ghulam Muhammad showed satisfaction with the provision of the supply of SNG to them. Audit finding show that 97% of respondents were satisfied with the intervention. Its positive impact was apparent in all spheres of the lives of the people in the area, whether social, economic, or environmental. The findings proved that the intervention has significantly reduced the rate of respiratory diseases besides promoting urbanization. There is a continued demand for issuance of more SNG connections among residents. SSGC may consider taking proactive measures to fulfill the needs of local

community, ensuring timely provision of connections and enhancing customer satisfaction.

Recommendations

- i) Expand the distribution network for maximum utilization of the installed Gilgit Plant's capacity;
- ii) Provide gas connections to applicants to improve their lives by offering clean, affordable, and sustainable energy along with a better environment;
- iii) Improve service delivery through the timely issuance of demand notices and gas bills to retain and gain consumers in Gilgit.
- iv) Resolve the matter of the inclusion of Sales Tax in gas bills for Gilgit consumers;
- v) Ensure proper maintenance of the distribution network in Kot Ghulam Muhammad; and
- vi) Construction of boundary wall around Pressure Regulating Stations (PRS) installed in Kot Ghulam Muhammad.

ANNEXES

Annex-1**MFDAC PARAS**

(Rs in million)				
Sr. No.	Formation	DP No	Subject	Amount
1	DG Admn / SP	3310	Irregular Shifting of offices in Petroleum House without Handing-taking over of building from PWD and non-insurance form NICL	-
2	DG Admn / SP	3311	Non-implementation of Federal Cabinet and ECC decision	-
3	DG Admn / SP	3312	Improper Human Resource Management by the Petroleum Division	-
4	DG Admn / SP	3313	No action taken so far against issuance of notification prior to approval from competent authority	-
5	DG Admn / SP	3316	Ineffective role of CF&AO in monitoring receipts and pre-audit of subsidy disbursement	-
6	DG Admn / SP	3317	Non-appointment of Chief Internal Auditor	-
7	DG Admn / SP	3462	Improper posting of IT officers as DDO and non-redesignation of ferro printer	-
8	DG (Gas)	3160	Inadmissible adjustment of GDS by M/s MPCL	-
9	DG (Gas)	3161	Inadmissible payment to SNGPL for diversion of RLNG to domestic/commercial sector in summer months	-
10	DG (Gas)	3162	Excess disbursement of subsidy due to excess quantity than capped limit	-
11	DG (Gas)	3164	Weak oversight by DG (Gas) resulted in decision by the ECC against sprit of Gas Development Surcharge Ordinance	-
12	DG (Gas)	3168	Inadmissible disbursement of subsidy to CPPs without having Co-generation facility	-
13	DG (Gas)	3171	Non-compliance of PAC directives resulted in blockage of Government Revenue	-
14	DG (LGs)	3154	Non-existence of system for assessing the due receipts	-
15	DG (LGs)	3155	Loss of human lives and property due to improper monitoring of LPG (Production	-
16	DG (LGs)	3157	Non- payment of petroleum levy and mark	2.713

			up on sale of LPG - Rs 2.713 million	
17	DG (Oil)	3173	In-effective law leading to absence of recovery mechanism of OMC's Margin from Refineries on their direct sales-Rs.20.611 million	20.611
18	DG (Oil)	3175	Non-preparation of budgetary estimates to incorporate in Annual Budget Statement of Pakistan	-
19	DG (Oil)	3176	Un-authorized purchase of 2.229 million barrels crude oil for Rs. 53,490.368 million and sale of 165.044 million litres of petroleum products by M/s ENAR	2.229
20	DG (Oil)	3177	Short-payment of Petroleum Levy and LPS on sale of POL products	-
21	DG (Oil)	3178	Short-payment of Petroleum Levy on High Speed Diesel -Motor sprit due to variation in sales figures reported to DG (Oil) and FBR	-
22	DG (PC)	3146	Non-realization of license rent of offshore field (US \$ 114,968) -Rs.31.693 million	31.693
23	DG (PC)	3148	Wrong Deposit of Social Welfare Obligation into Training Fund Account (US\$ 430,244)- Rs 120.933 million	120.933
24	DG (PC)	3183	Irregular operation of leases due to non-renewal by DG(PC)	-
25	DG (PC)	3186	Non-compliance of Guidelines for Operational Safety by E&P Company resulted in loss of human life	-
26	DoE	2970	Illegal import of DNT by Ms Wah Industries-Rs.66.497 million	66.497
27	DoE	2971	Unauthorized manufacturing of explosives by M/s Wah Associates	-
28	DoE	2972	Non-action against M/s Khewra Kohsar Services involved in suspicious missing of imported fireworks-Rs. 6.850 million	6.850
29	DoE	2973	Discriminatory physical inspection of M/s Wah Associates by the Department of Explosives.	-
30	DoE	2975	Non-imposition of penalty on non-submission of fortnightly reports-Rs 11.4 million	11.400
31	DoE	2977	Non-recovery of difference of renewal fee from OMCs-Rs 1.729 million	1.729
32	DoE	2978	Non-conducting of inquiry on the blast occurred in the licensed premises of M/s Wah Noble (Pvt) Limited	-
33	DoE	2979	Non-action on expired license of M/s. Chaudary Rock Blasting in Form EL-02	-

34	DoE	2980	Irregular issuance of Form-K to M/s Horizon Oil Company (Pvt) Limited despite restriction on addition of retail outlets	-
35	DoE	2981	Unauthorized drawl of explosives by EL-04 licensees from the magazine of two EL-02 license holders	-
36	DoE	2982	In-ordinate delay in issuing of expiry notice to M/s Chenab Explosives, after lapse of four years	-
37	DoE	2983	Non-determination of loss of revenue from issuance / renewal of Form-Q of Petroleum Rules, 1937	-
38	DoE	2984	Unauthorized sale of mineral gases to M/s SNGPL without having Form "A"	-
39	DoE	2985	Non-forwarding of case to the FIA upon submission of fake documents by the licensee	-
40	DoE	3036	Non-recovery and non-imposition of penalties on illegal storage of petroleum products amounting to Rs. 25.255 million	25.255
41	DoE	3039	Non-realization of revenue due to non-renewal of licenses granted to storage depots in Form "L" Rs. 15.150 million	15.150
42	DoE	3040	Non-initiation of action by the Department of Explosives against 12 CNG stations selling flare gas	-
43	DoE	3041	Safety distance violation in explosives storage license No. RAD/4474/E in Form EL-02 of Ms Araka Enterprises (Pvt) Limited	-
44	DoE	3042	Blast occurred at Hyderabad in LPG shop due to ineffective safety measures and non-coordination with local Government management	-
45	DoE	3046	Non-Existence Of Internal Controls	-
46	DoE	3047	Regularization of illegal retail outlets of 10 OMCs without levying fine and penalties	280.000
47	ENAR	2847	Lack of oversight of the management / Board	61.680
48	ENAR	2850	Decline in the trend of project-acquisition due to poor performance of the Business.	-
49	ENAR	2854	Irregular re-appointment of formerly terminated Accountant as an Executive Corporate & Business Development	9.864
50	ENAR	2856	Non-conduct of Internal Audit	-

51	GSP	3007	Non-return of vehicles and other store items to GSP Quetta after completion of toposheets project and transfer of officers to Regional Offices of GSP	27.256
52	GSP	3009	Unauthorized payment of T.A / Honorarium / Late Sitting Allowance	6.541
53	GSP	3010	Non-recovery of contingent advances / TA advance taken from the officers of GSP	-
54	GSP	3011	Unjustified advance payment to Pak PWD at the end of financial year for construction of boundary wall of GSP - Rs 15.213 million	15.213
55	GSP	3016	Unjustified excess payment to Pak PWD on higher market fluctuation-based estimates – Rs 6.417 million	6.417
56	GSP	3018	Non-adjustment of TA Advance granted to officers/officials amounting to Rs. 0.628 million	0.628
57	GSP	3019	Non-adjustment of contingent advances paid to officers/officials for Rs 1.117 million	1.117
58	GSP	3020	Unjustified procurement without devising Annual Procurement Plan – Rs 10.043 million	10.043
59	GSP	3021	Non-obtaining of bid security Rs 0.499 million	0.499
60	GSP	3022	Unauthorized working of officers as signatories in violation of procedures of Assignment Accounts	-
61	GSP	3024	Non / Delayed execution of approved projects by GSP Lahore office	-
62	GSP	3025	Unjustified posting of officers and staff despite non-functional laboratory and work shop at GSP office	-
63	GSP	3026	Non-execution of work by Pak PWD due to wrong deduction of with-holding tax by CAO office - Rs 2.27 million	2.270
64	GSP	3027	Irregular appointment vehicle machinic	-
65	GSP	3028	Non-verification of degrees of officers/officials of GSP office	-
66	GSP	3031	Non-digitization and non-up-dation of organogram/posts	-
67	GSP	3032	Non-payment of arrears to upgraded officials of GSP despite lapse of considerable time period -Rs0.461 million	0.461

68	GSP	3034	Blockage of revenue due to non-auction of condemned vehicles and unserviceable items	-
69	GSP	3035	Unjustified provisional payment of electricity bills – Rs 15.985 million	15.985
70	HDIP	2802	Blocked of funds due to non-repair of equipment by the vendor Rs 31.524 million	31.524
71	HDIP	2803	Non development of comprehensive computer managed Data Base	-
72	HDIP	2804	Non-verification of certificates/degrees of HDIP's employees	-
73	HDIP	2805	Weak internal controls over receipts	-
74	HDIP	2810	Non-imposition of Liquidated charges due to late delivery of machinery – Rs 5.220 million	5.220
75	HDIP	2811	Undue favour resulted in irregular appointment of overage candidates	-
76	HDIP	2813	Irregular recruitment of staff by an officer holding look after charge of the post of Director General (HDIP)	-
77	HDIP	2814	Irregular payment of rent of residential ceiling in PTC Multan without concurrence of Finance Division – Rs 2.784 million	2.784
78	HDIP	2815	Loss due to purchase of sub-standard EDXRF Sulphur Analyzer-Rs 13.338 million	13.338
79	HDIP	2816	Cost Escalation due to non-completion of KLC Project – Rs 104.841 million and unjustified expenditure – Rs 25.301 million	25.301
80	HDIP	2818	Non-fixation of responsibility on the person (s) responsible for appointment on fake degree	-
81	HDIP	2819	Non-blacklisting of defaulting firm due to non-supply of software and IT Equipment-Rs 3.860 million	3.860
82	HDIP	2820	Irregular execution and continuation of contract after expiry in violation of PPRA Rules – Rs 5.443 million	5.443
83	HDIP	2822	Non-deduction of Withholding Tax on Terminal benefits, CP Fund contribution and Leave Encashment - Rs 5.590 million	5.590
84	HDIP	2823	Loss due to purchase of equipment at higher rates – Rs 1.779 million	1.779
85	HDIP	2825	Defective tendering resulted in loss of	36.000

			revenue due to non out-sourcing of CNG Station – Rs 36 million	
86	HDIP	2826	Irregular award of Acting Charge of the Post of Director General HDIP and use of Administrative and financial Powers – Rs 20.451 million	20.451
87	HDIP	2827	Non-adoption of Treasury Single Accounts System by HDIP	-
88	HDIP	2828	Improper functioning of HDIP due to non-appointment of regular CEO and GMs resulted in non-achievement targets	171.567
89	HDIP	2829	Non-procurement of CFR Engine due to mis-management resulted in anticipated additional cost – Rs 128.75 million	128.750
90	ISGS	2860	Non-issuance of Share to GHPL – Rs 436.244 million	436.244
91	ISGS	2861	Irregular expenditure on advertisement – Rs 2.595 million	2.595
92	ISGS	2862	Non-recovery of benefit of group taxation from M/s GHPL – Rs 280.50 million	280.500
93	ISGS	2863	Short deduction of tax from employees due to non-inclusion of POL facility in the salary-Rs 2.374 million	2.374
94	ISGS	2864	Non conducting of the performance evaluation of the Board for the year 2021-22 & 2022-23	-
95	ISGS	2865	Avoidable expenditure on account of car maintenance allowance and Driver salary-Rs 3.496 million	3.494
96	ISGS	2866	Overpayment on account of Car maintenance Allowance and Driver salary recovery thereof-Rs 0.734 million	0.734
97	ISGS	2868	Non-achievement of objectives for establishment of Company	-
98	OGDCL	2920	Non-recovery of share from Joint Venture Partners	-
99	OGDCL	2924	Short / non-deposit of Lease Extension Bonus on extension of Leases	-
100	OGDCL	2925	Non-deposit of Social Welfare Obligations – Rs 90.610 million	90.610
101	OGDCL	2927	Loss due to unverified quantity of gas	-
102	OGDCL	2928	Non-recovery of outstanding balances from GHPL of Social Welfare Obligation and operational expenses	-

103	OGDCL	2934	Loss of revenue due to unsold quantity of LPG - Rs 38.132 million	38.132
104	OGDCL	2936	Running the company without a regular Managing Director	-
105	OGDCL	2939	Short deductions of Income Tax in violation of Income Tax Ordinance, 2001 – Rs 104.621 million	104.621
106	OGDCL	2945	Non-auction of unserviceable / condemned vehicles	-
107	OGDCL	2946	Cancellation of foreign purchase orders of important spare parts / consumables resulting causing major impact on operations	-
108	OGDCL	2950	Non-achievement of tasks assigned to Strategic Indigenization Unit	-
109	OGDCL	2952	Non-obtaining of performance bank guarantee - Rs 11.423 million	11.423
110	OGDCL	2964	Non-compliance of Rules for approval of Environmental Impact Assessment for oil and gas exploration and production activities	-
111	OGDCL	2966	Non-settlement of borrowed / loan items despite lapse of considerable time – Rs 27.578 million	27.578
112	OGDCL	3049	Non-payment of License Rent of 28 Concessions - Rs 77.554 million	77.554
113	OGDCL	3051	Unjustified deployment of rigs on drilling work resulting in non-achievement of drilling targets	-
114	OGDCL	3053	Non-monetization of 12 discoveries resulting in loss of potential revenue	-
115	OGRA	3128	Non-notification of price of smaller size LPG cylinders i.e. 2Kg, 4Kg & 8 Kg	-
116	OGRA	3134	Discrimination action by Authority resulting in -non-imposition of penalty - Rs 473.750 million	473.750
117	OGRA	3251	Non-disbursement of compensation to relevant effectees despite lapse of 7 years- Rs34.136 million	34.136
118	PLL	2830	Irregular payment of bonus to employees Rs. 24.886 million	24.886
119	PLL	2832	Violation of laws relating to appointment of female representation as Board of Director	-
120	PLL	2835	Non verification of degrees and experience certificates of newly appointed officers/officials	-

121	PLL	2836	Non finalization of GSPA with SNGPL by PLL	-
122	PLL	2837	Non-succession planning by board of PLL in filling vacant management positions	-
123	PLL	2838	Irregular appointment of employees who do not have required service experience	-
124	PLL	2839	Non-initiation of disciplinary proceeding by HR management	-
	PLL	2843	Non formulation of CSR Policy resulting in unjustified financial burden	-
125	PLL	2844	Ineffective policies of Board Meetings and proceedings caused a loss of as per financial statements for 2022-23 regarding Pakistan LNG Limited	-
126	PLL	2845	Wasteful expenditure on advertisement of tendering	3.910
127	PLL	2846	Non recovery of LPS on delayed payments from SNGPL Rs 3,229.899 million	3,229.899
128	PPL	3319	Non-finalization of inquiries against the employees despite lapse of four years	-
129	PPL	3322	Security lapse at Karachi Based Store-West Wharf resulted into loss due to theft of scrap - Rs 1.391 million	1.391
130	PPL	3323	Non-initiation of disciplinary proceeding against employees despite unauthorized absences	-
131	PPL	3329	Non-receipt of vouched accounts from NGOs and institutions – Rs 192.100 million	192.100
132	PPL	3334	Non-recovery of receivables from GHPL – Rs 51.688 million	51.688
133	PPL	3335	Non-payment of Windfall Levy on Oil (WLO)	-
134	PPL	3336	Non-payment of exploration expenditure to 10 Blocks / JVs – Rs 1,288.475 million	1,288.475
135	PPL	3337	Non-finalization of de-hiring and restoration of land of Plugged and abandoned wells	-
136	PPL	3339	Unaccounted for huge quantity of produced natural gas (77,338 MCF) from Kandkot gas field resulting in loss of sales revenue & Govt. dues – Rs 82.629 million	82.629
137	PPL	3344	Non-carrying out evaluation / impact assessment and audit of utilization of CSR funds directly or through third party – Rs 3702.760 million	3,702.760
138	PPL	3348	Violation of National Environmental	-

			Quality Standards for Noise	
139	PPL	3349	Unjustified prolonged posting as OSD and payment of salary without any work – Rs 221.903 million	221.903
140	PPL	3427	Failure in utilization of budget under CAPEX allocated for Fixed Assets, Exploration and Development Works	-
141	PPL	3443	Non-fulfilment of work commitments in 13 active blocks by PPL	-
142	PPL	3446	Short payment of social welfare obligation - Rs 42.944 million	42.944
143	PPL	3456	Creation of Asset Acquisition Reserve without any future utilization plan	23,751.980
144	PPL	3459	Non-recovery of other receivables from PPL Asia – Rs 680.386 million	680.386
145	PPL	3504	Non-payment of dividend to GOB and PPL by BME – Rs 3,600 million	3,600
146	PSO	3259	Non-recovery of Exchange losses	-
147	PSO	3260	Blockage of company's revenue due to non-observance of terms of agreement and resulting in litigation Rs. 9.04 million	9.040
148	PSO	3268	Loss to Government Exchequer due to existence of SOPs against the Public Interest	-
149	PSO	3263	Non-resolution of issue of LNG Margin with OGRA in line of ECC decision resulted loss	-
150	PSO	3264	In-effective action for sensitizing the Competent fora to take appropriate action on LNG Business Segment to prevent the Company from Loss	-
151	PSO	3267	Undertaking involving billion of Rupees without Financial Backing to Supreme Court of Pakistan	-
152	PSO	3269	Non-incorporation of Actual Cost in Subsequent Pricing resulting in Pending Adjustments- Rs. 1.032 billion	1,032.000
153	PSO	3272	Inadequate follow up for recovery of Regulatory duty resulted blockage of company's fund Rs. 259.793 million	259.793
154	PSO	3281	Wastage of resources due to on-operational storage tanks	-
155	PSO	3290	Non-Existence of Policies for Appointment of Legal Counsels in PSO and Non-Adherence the instructions of the Prime Ministers regarding dealing with the	-

			legal matters	
156	PSO	3296	In-efficient business operations having critical impact on the business of PSO	-
157	PSO	3309	Non-availability of Fire Fighting Equipment at Keamari Terminal-B	-
158	SML	2899	Excess payment of leave encashment	12.462
159	SML	2900	Non-recovery of balance of advance salary from Ex-Managing Director	7.106
160	SML	2901	Non-implementation of BoD decision regarding monitoring of CSR spending by GoB – Rs 804.798 million	804.798
161	SML	2904	Unjustified expenditure on hiring of services despite having relevant in house expertise Rs 11.602 million	11.602
162	SML	2907	Loss due to theft of blister copper from the SML site – Rs 1.756 million (Approx)	1.756
163	SML	2908	Non-compliance of clauses of lease agreement by MRDL	-
164	SML	2910	Lack of pursuance of adjustment/refund of income tax - Rs 1,837.331 million	1,837.331
165	SML	2911	Procurement of assets by MRDL in violation of lease contract	-
166	SML	2912	Short calculation of GoB share for Rs 2790.483 million and short payment of income tax - Rs 1,494.89 million	1,494.890
167	SML	2916	Non-nomination of subsequent Board of Directors of SML after expiry of term of the Board and irrational composition of current Board	-
168	SNGPL	3002	Non completion of 100% cost sharing jobs despite lapse of 1 to 4 years – Rs 470.041 million	470.041
169	SNGPL	3003	Non-compliance of quality standards in respect of ditching, using 2 nd class bricks for laying of pipeline and not using detectable tape	-
170	SNGPL	3058	Non-replacement of electric panel in regional office SNGPL Islamabad and Non-installation of beam detector, smoke alarming system in Abbottabad store	-
171	SNGPL	3060	Non-obtaining NOCs from Local Authorities resulting in imposition of fines – Rs 50.139 million	50.139
172	SNGPL	3065	Defective inspection of Gas Leak Detectors resulted in receipt of faulty equipment US\$ 148,387.6 [Rs 41.252 million]	41.252

173	SNGPL	3073	Non-forfeiture of PWBG despite the supply of material within stipulated period – Rs 43.977 million	43.977
174	SNGPL	3074	Unjustified payment of demurrage charges - Rs 3.953 million	3.953
175	SNGPL	3075	Pre-qualification of non-compliant firm as 03 rd party inspector – Rs 6.399 million	6.399
176	SNGPL	3076	Non-replacement of defective material /sub-standard material – Rs 16.180 million	16.180
177	SNGPL	3081	Non-installation of smoke detector and fire alarm in newly hired building	-
178	SNGPL	3083	Cost overrun in government funded jobs - Rs 4.784 million	4.784
179	SNGPL	3086	Non-initiation action / inquiry due to non-encashment of Bank Guaranty within validity period – Rs 6 million	6.000
180	SNGPL	3088	Non-recovery of outstanding dues from PFC consumers Rs 28.770 billion	28,770.000
181	SNGPL	3188	Non-blacklisting of defaulter firms due to due to non-fulfilment of contractual obligations - Rs 72.306 million	72.306
182	SNGPL	3189	Non-blacklisting of defaulter firms due to non-supply of material - Rs 33.130 million	33.130
183	SNGPL	3195	Excess expenditure due to appointment of External Auditor at exorbitant rate -Rs 18.330 million	18.330
184	SNGPL	3204	Shortage of inspection tools for Quality Assurance led to undetected defects	-
185	SNGPL	3206	HSE department failed to identify & resolve the Health & Safety issues in various regions	-
186	SNGPL	3212	Development of untrained personnel in Corrosion Department led to risk involvement with pipeline integrity	-
187	SNGPL	3215	Inadequate indoor air quality monitoring and management at SNGPL Head Office	-
188	SNGPL	3218	Excess expenditures in Risk Management Department - Budget overspend	10.157
189	SNGPL	3227	Loss of revenue due to weak vigilance	25.829
190	SNGPL	3231	Unconstitutional Blood Relation Policy-2018 - Contravention of Article 25	-
191	SNGPL	3232	Non-registration of the labour/workers/employee in EOBI despite the deduction from their pay for EOBI contribution	-
192	SNGPL	3241	Weak Internal Control resulting non-encashment of Bank Guarantees	243.119

193	SNGPL	3243	Provision of unauthorized gas connections through illegal laid line	-
194	SNGPL	3244	Failure to ensure third party assurance under the ambit of CSR	-
195	SNGPL	3304	Non-compliance of observations raised (PNCs) by URS (United Registration System) team during an integrated on-site surveillance audit.	-
196	SNGPL	3352	Delay in laying of pipeline for supply of 105 MMCFD RLNG to Fauji Fertilizer Company	-
197	SSGC LPG	3478	Loss due to scrapping of contracts and purchase of LPG on higher price – Rs 192.535 million	192.535
198	SSGC LPG	3484	Non finalization of tenders within validity period resulting into violation of PPRA, 2004 -Rs 54.724 million	54.724
199	SSGC LPG	3485	Undue interference by the Holding Company by directly managing the affairs of the SLL	-
200	SSGC LPG	3491	Irregular granting of acting charge of Chief Financial Officer to the head of Internal Audit	-
201	SSGC LPG	3494	Irregular business with a firm without required business license granted by FBR in violation of Income Tax Ordinance, 2001	-
202	SSGC LPG	3497	Unjustified procurement of LPG from foreign suppliers at exorbitant price-Rs. 430.401 million	430.401
203	SSGC LPG	3500	Non-adjustment of unpaid amount of liability in the income tax returns in violation of provisions of Income Tax Ordinance, 2001- Rs 563.203 million	563.203
204	SSGC LPG	3502	Mis-procurement of imported LPG due to change of suppliers –Rs 916.879 million	916.879
205	SSGC LPG	3503	Procurement of imported LPG through Monopolistic practices resulting into violation of PPRA, 2004	-
206	SSGC LPG	3506	Irregular continuation of contract of Chartered Accountants	-
207	SSGC LPG	3507	Irregular issuance of repeat orders in excess of admissible limit -Rs 1.235 million	1.235
208	SSGC	3356	Irregular payment of rent due non-renewal of expired lease agreements- Rs 36.662 million	36.662

209	SSGC	3365	Delay in initiation/completion of enquiry report resulting into non-awarding a punishment to the accused during his service tenure	-
210	SSGC	3369	Irregular cash payment due to violation of provision of Income Tax Ordinance, 2001- Rs 22.495 million	22.495
211	SSGC	3377	Non deduction of income tax on perquisite provided by SSGC to its employee	-
212	SSGC	3379	Loss on account of non-recovery of dues due to expiry of gas sale agreement (GSA) – Rs. 703 million	703.000
213	SSGC	3380	Failure to take timely action against the defaulter resulting into non-encashment of Bank Guarantee –Rs 1,045 million	1,045.000
214	SSGC	3381	Irregular supply of gas to HCPC without executing Gas Sales Agreement	-
215	SSGC	3386	Irregular payment without any service contract due -US\$ 170,644.50 (Rs 47.439 million)	47.439
216	SSGC	3388	Non-finalization of evaluation of the bid within bid validity period resulted into non-observance of provision of PPRA, 2004 – Rs 53.967 million	53.967
217	SSGC	3389	Non forfeiture of bid security due to non-acceptance of Letter of Intent- Rs 3.000 million	3.000
218	SSGC	3391	Para 04 Non-inclusion of comprehensive set of specifications of Orifice Meter in tender documents causing delay in finalization of bidding process	-
219	SSGC	3393	Defective Technical Evaluation by the user department resulting into re-tendering	-
220	SSGC	3394	Unjustified cancellation of competitive bidding resulting into violation of PRA,2004 – Rs 1.080 million	1.080
221	SSGC	3395	Illegal Declaring the lowest bidder after opening of the financial bid as not qualified - Rs. 29.50 million	29.500
222	SSGC	3397	Non-imposition of liquidated damages – Rs. 1.944 million	1.944
223	SSGC	3398	Loss due to defective technical evaluation in tender process amounting to Rs.3.097 million	3.097
224	SSGC	3401	Wastages of resources due to irregular cancellation of tenders	-

225	SSGC	3402	Loss due to non-forfeiture of performance Guarantee and non-initiation of action against the defaulter –Rs 3.394 million	3.394
226	SSGC	3404	Weak procurement policy & irrational nomination of Chief Internal Auditor as chairman pre-qualification committee	-
227	SSGC	3407	Irregular hiring of the maintenance services from the back date and irregular award of contract - Rs 2.046 million	2.046
228	SSGC	3416	Irregular rejection of candidate appeared for the post of Assistant Manager - Financial Audit on the plea of extraordinary qualification	-
229	SSGC	3420	Irregular interview panel and irrational JD resulted in irregular appointment of Deputy Chief Manager – Finance	-
230	SSGC	3424	Delayed / Non-deposit of Gas Development Surcharge (GDS)	17,232.544
231	SSGC	3465	Non-recovery of outstanding dues from SNGPL - Rs 1,989.653 million	1,989.653
232	SSGC	3466	Irregular payment of Bill delivery and Meter reading services charges without any contract Rs 267.251 million	267.251
233	SSGC	3467	Issuance of Provisional bill beyond three billing cycles resulting into violation of Performance and Service Standard, 2019	-
234	SSGC	3469	Delay in issuance of Letter to Proceed (LTP) to the contractor causing additional cost to the customer- Rs 11.522 million	11.522
235	SSGC	3470	Non initiation of reinforcement schemes resulting into depriving consumers of appropriate level of gas pressure	-
236	SSGC	3471	Issuance of Provisional bill beyond three billing cycles resulting into violation of Performance and Service Standard, 2019	-
237	SSGC	3473	Irregular billing of Special Commercial (Roti Tandoors) on Commercial Tariff resulting into violation of tariff rates issued by OGRA	-
238	SSGC	3474	Non reconciliation and un-authenticate purchase of gas through Sales Meter Station resulting into non-identification of actual UFG in the region	-
239	SSGC	3475	Non-recovery of outstanding dues from customers – Rs 2,191.665 million	2,191.665

240	GSP	3015	Unjustified expenditure on repair and maintenance of vehicles-Rs 9.539 million	9.539
241	GSP	3030	Unjustified procurement of spatial software for Rs 8.953 million at the end of project life and use of pirated version of software throughout the project	8.953
242	SNGPL	3079	Delayed resolving critical complaints against the Performance and Service Standards of OGRA	-
243	SNGPL	3085	Non-refund of saving and non-recovery of cost overrun from consumers in cost sharing jobs Rs. 105.794 million and Rs 1.485 million	1.485
244	OGRA	3132	Non- utilization the biometric machine for attendance and non-maintaining the discipline within organization	-
245	OGRA	3249	Irregularities observed in HR files relating to appointment of advisor and contingent staff.	-
246	OGRA	3250	Irregular engagement of internee without advertisements and un-due 3rd time extension -Rs 13.8 million	13.800
247	OGRA	3253	Failure of internal control- non-stoppage of salary during absent period ranging up to 494 days-Rs 4.954 million	4.954
248	PSO	3270	Irregular expenditure on Financial Charges Rs. 38.158 billion	38,158.000
249	SSGCL	3353	Non initiation of disciplinary action despite unearthing of fraud	-
250	SSGCL	3354	Non-initiation disciplinary action against the employee despite committing fraud	-
251	SSGCL	3355	Non-initiation disciplinary action against the employees involved in provision of illegal gas connection and malpractices	-
252	SSGCL	3357	Lesser punishment to an employee who created 868 fraudulent connections/bills in the system	-
253	SSGCL	3358	Ambiguous candidate evaluation sheet and discretionary powers of interviewers resulted into irregular hiring/appointments	-
254	SSGCL	3359	Undue favour to Company Secretary by non-implementation of harassment enquiry findings report	-
255	SSGCL	3360	Irregular promotion of executives to Grade-VIII with back date in violation of Promotion Policy of HR Manual, 2022 causing overpayment- Rs 6.122 million	6.122

256	SSGCL	3362	Consolidation of Level I & Level II interview simultaneously in violation of HR policy	-
257	SSGCL	3363	Defective enquiry report in embezzlement case resulting non-addressing cross-functional jobs for Installation of service connections	-
258	SSGCL	3375	Irregular payment of honorarium, 450 Liters petrol charges and medical facility over and above the board fee to the Chairperson of BoD - Rs-11.113 million	11.113
259	SSGCL	3376	Manipulation of SSGC Boards meeting minutes	-
260	SSGCL	3382	No defined recruitment criteria under HR policy 2022 resulted in irregular appointments since 2022	-
261	SSGCL	3384	Suspicious recruitment process due to discrepancies in HR policy and imaginary Job Description used as evaluation criteria in recruitment	-
262	SSGCL	3399	Irregular extension of contract in violation of Special Terms & Conditions of tender-Rs 6.221 million	6.221
263	SSGCL	3412	Irregular sanction of Special Salary Increment and Current Charge to the Company Secretary in violation of provision of HR Policy-Rs 7.025 million	7.025
264	SSGC LPG	3477	Irregular execution of Terminal Service Agreement with a Company by granting undue favour	-
265	SSGC LPG	3480	Lack of oversight by the Board of Directors (BoD) resulting in recurrence of irregularities	-
266	SSGC LPG	3487	Misreporting/concealment of facts involving M/s Khyber Gas Agency in fraud and errors in the Annual Report of the Company	-
267	SSGC LPG	3489	Delay in payment to foreign suppliers causing exchange loss to the Company- Rs 355.179 million	355.179
268	SSGC LPG	3493	Irregular procurement by way of consistent advertising in local/ thinly circulated newspapers	-
269	SSGC LPG	3498	Un-authorized sale of LPG to non-registered distributors	-
270	SSGC LPG	3509	Unjustified adjustment of sales against amount of security deposit of M/s KK Gas – Rs 15.296 million	15.296

271	DG Admn/SP	11 / 28-L	Non-implementation of FST decision regarding upgradation of Accounts Officer Post	-
272	DG Admn/SP	13 / 28-L	Non-repatriation of APS to his previous/ parent office	-
273	DG Admn/SP	17 / 28-L	Non-recovery of outstanding dues against Govt. Accommodation	0.526
274	DG (LG)	4 / 24-L	Complexity in RLNG supply chain due to involvement of multiple /organizations resulting in high prices of RLNG	-
275	DG (Gas)	15 / 26-L	Slow Progress of Gas Infrastructure Development Projects	-
276	DoE	11 / 14-L	Irregular payment of special pay on account of current-charge promotion beyond maximum period of 6 months	0.303
277	DoE	6 / 14-L	Irregular payment of rent of regional office Quetta at a higher rate than assessed by the Pak PWD	3.15
278	DoE	13 / 11-L	Restoration of cancelled license without recovery shop fee and fine & penalties	-
279	DoE	16 / 14-L	Non-maintenance of record of licenses of gunpowder below 15kgs issued by the district authorities.	-
280	DoE	13 / 17-L	Non-deposit of tuck/mart shop fee	1.14
281	DoE	11 / 17-L	Non-recover the revenue due to non/late issuance of expiry, cancelation and sealing orders	3.102
282	DoE	37 / 14-L	Non-determination of loss of revenue from issuance/ renewal of Form-K fee in the area of Pak Pattan necessitated by revelation of illegal activities of ex. employees of the department	-
283	DoE	21 / 17-L	Renewal of outdated oil barge license of Special Form M/s Hussain Oils	-
284	DoE	17 / 17-L	Non-recovery of interest on HBA	0.233
285	DoE	18 / 17-L	Non-verification of treasury challans from Federal Treasury Office	-
286	DoE	25 / 14-L	Non-feeding of real time data on the dashboard for efficient monitoring of flow of explosives	-
287	DoE	12 / 11-L	Non-issuance of duplicate copy of License in Form-C for storage of Carbide of Calcium to Ms. Multan Country Chemicals	-

288	DoE	11 / 11-L	Unauthorized purchase and sale of Calcium Carbide by M/s Zeeshan Enterprises	-
289	GSP	11 / 04-K	Non-maintenance of log books/movement registers of vehicles of toposheets project	-
290	GSP	5 / 12-K	Procurement through splitting instead of tendering process	1.429
291	GSP	18 / 02-K	Non-framing of Specific Manuals, Policies and SOPs for unique activities of GSP	-
292	GSP	1 / 02-K	Unjustified re-appropriation of funds of Exploratory Operations	78.96
293	GSP	21 / 02-K	Non-maintenance of record of pay and allowances and claims of TA/DA etc submitted by gazetted officers of the GSP	-
294	GSP	16 / 02-K	Excess expenditure of gas Bills	0.557
295	GSP	26 / 02-K	Non-conducting physical stock taking of stores	-
296	GSP	23 / 02-K	Non-Maintenance of off-road vehicles resulting into deteriorating of government assets	-
297	OGDCL	30 / 21-L	Non-finalization of disciplinary proceedings against employees	-
298	OGDCL	31 / 21-L	Non-compliance of laws related to appointment on casual vacancy of Director	-
299	OGDCL	27 / 21-L	Non-finalization of Joint Venture Accounts by OGDCL	-
300	OGDCL	28 / 21-L	Non-finalization of deed of assignment with JV partners resulting in non-sharing of expenditure/revenue	-
301	OGDCL	26 / 21-L	Inordinate delay in finalization of recruitment cases against vacant posts	-
302	OGDCL	18 / 19-L	Non-utilization of amounts allocated in CSR Trust fund	-
303	OGDCL	13 / 19-L	Imprudent decision to re-allocate budget from compression projects for payment of pay to employees	-
304	OGDCL	6 / 20-L	Decline of in-house seismic data acquisition	-
305	OGRA	54 / 10-L	Irregular appointment and promotion in violation of Authority's own criteria	-
306	PPL	4 / 25-K	Unjustified addition in technical/ general allowance	0.206
307	PPL	8 / 28-K	Irregular award of work contracts / MoAs for education & training, healthcare and	118.888

			water supply under CSR	
308	PPL	6 / 28-K	Irregular award of MoAs without observing PPRA Rules for health services and for supply of medicines, pharmacies, medical stores at field offices of PPL	-
309	PPL	8 / 26-K	Out-sourcing of core functions (Exploration & Drilling) in violation of Memorandum of Association	-
310	PPL	7 / 26-K	Non-payment of Training Fund for 08 exploration block	39.293
311	PPL	17 / 24-K	Short payment of Federal Excise Duty (FED) on Natural Gas	-
312	SSGC	6 / 11-K	Non-Development of Business Development Plan	-
313	SSGC	1 / 10-K	Unjustified payment of overtime amounting due to non-achievement of production targets	13.329
314	SSGC	8 / 14-K	Non-finalization of evaluation of the bid within bid validity period resulted into non-observance of provision of PPRA, 20004	0.937
315	SNGPL	09, 22, 42 / 23, 1-L	Non-remittance of gas bills collection by Banks	-
316	SNGPL	22 / 13-L	Improper solid waste management system and housekeeping practices that may increase likelihood of mishaps and dengue	-
317	SNGPL	21 / 15-L	Non-compliance of HSE approved procedures pertaining to PPEs at various sites	-
318	SNGPL	25, 29 / 13, 15-L	Non installation of RLNG connections of domestic consumers	-
319	SNGPL	17, 07 / 2, 13-L	Non-recovery of differential amount from CNG Consumer due to load enhancement	-
320	SNGPL	27 / 13-L	Non preparation / generation of MIRs of replaced and disconnected meters	-
321	SNGPL	12, 24 / 13-L	Blockage of access to fire Extinguisher and emergency exit by heaps of damaged/ repaired meters and non-refilling of empty Fire extinguisher	-
322	SNGPL	23 / 13-L	Not achieving the target of routine safety audit (RSA) and Non conducting routine safety talks against required numbers	-

323	SNGPL	26 / 13-L	Non-Functioning of six Cathodic Protection (CP) Stations resulted in non-identification of leakages	-
324	SNGPL	21 / 13-L	Not Obtaining of load lifting test certificate of heavy equipment	-
325	SNGPL	24 / 15-L	Mis-procurement due to violation of PPRA Rules	6.025
326	SNGPL	15 / 29-L	Non-disposal of scrapped items	31.515
327	SNGPL	12 / 16-L	Blockage of funds due to unnecessary procurement	15.675
328	SNGPL	21, 24, 23 / 23, 16, 22-L	Non-disposal of scrap items	16.299
329	SNGPL	33, 37 / 23, 16-L	Non-reconciliation of LPG Business in Regional offices	-
330	SNGPL	2, 4, 8, 3 / 23, 16, 1, 22, 09-L	Pending recovery suits filed by SNGPL in the court of Law	-
331	SNGPL	23 / 23-L	Non/delayed started billing despite lapse of considerable period from date of first meter installation	-
332	SNGPL	13, 13, 11 / 02, 13, 15-L	Delay/non-rectification of underground and above ground leakages resulted in wastage of Gas	-
333	SNGPL	4 / 34-L	Non-Compliance with SIFC Directives-SNGPL's Shortfall in RLNG connections	-
334	SNGPL	7 / 32-L	Non-Fulfilment of OGRA technical and performance standard due to non-removal of service line of disconnected consumers	-
335	SNGPL	6 / 32-L	Delayed Scheduled replacement of industrial, commercial and domestic meters against the UFG reduction plan	-
336	SNGPL	10 / 31-L	Granting Ex-Pakistan leave without finalization of disciplinary inquiry	-
337	SNGPL	17 / 30-L	Non-execution of Tri-partite agreement resulted in non-resolution of LPS claimed by PSO	-
338	SNGPL	21 / 29-L	Procurement of proprietary items in violation of terms and condition of tender documents	-

339	SNGPL	18 / 29-L	Mis-procurement due to defective financial evaluation of single bid without rate reasonability analysis	11.042
340	SNGPL	2 / 30-L	Loss due to inefficient management of LPG business	35.21
341	SNGPL	14, 16 / 30-L	Non-completion of process of mutation of land in favour of company and non-adjustment of advances	-
342	SNGPL	12 / 30-L	Poor performance of legal Department of SNGPL, failure to vacate the stay orders resulting in blockage of Government receipts in respect of GIDC	-
343	SNGPL	24 / 30-L	Non-compliance of laws related to appointment on casual vacancy of Director	-
344	SNGPL	20, 21 / 30-L	Huge Pendency of Legal cases due to ineffective pursuance by Law Department	-
345	SNGPL	6 / 30-L	Non-compliance of instructions of the Regulator regarding reduction of disparity in HR	-
346	SNGPL	7, 16 / 33-L	Non-implementation of Quality Assurance Plan (QAP)	-
347	SNGPL	6 / 31-L	Unfair vacancy reallocation-Denial of promotion opportunities to Group-III staff in SNGPL	-
348	SNGPL	7 / 31-L	Non-Compliance with promotion criteria - Arbitrary suitability marks allocation	-
349	SNGPL	13, 14, 16 / 33-L	Non-adherence to Risk Management Manual	-
350	SNGPL	20 / 23-L	Unjustified POL expenditures on hired vehicles	4.73
351	SNGPL	43 / 16-L	Ineffective functioning of treasury department at Sheikhpura Region	-
352	SNGPL	30 / 23-L	Non-segregation of revenue collection from consumers region wise	-
353	SNGPL	16 / 31-L	No-disciplinary action taken against the employee due to unauthorised absence from duty for 272 days	-
354	SNGPL	1 / 32-L	Huge pendency of recovery suits due to non-establishing Gas Tribunals	-
355	SNGPL	13 / 30-L	Non settlement of insurance claim	14.421
356	SNGPL	8 / 02-L	Non-encashment of Bank Guarantee of M/s Silichem Industries Private Ltd.	25.332

357	SML	15 / 01-K	Unjustified expenses of Dalbandin office despite no training	16.123
358	SML	29 / 01-K	Non-procurement of geological modelling / mining planning, scheduling and optimization software	-

Annex-2(i)

Audit profile of Ministry of Energy (Petroleum Division)

(Rs in million)

Sr. No.	Description	Total Nos.	Audited	Expenditure involved FY 2023-24	Revenue / Receipts involved FY 2023-24
1	MoE (PD)/Bodies/Dep.				
	Audited MoE (PD)/Bodies/Dep.				
(i)	Ministry of Energy (PD)	1	1	654.549	1,285,252.801
(ii)	GSP	1	1	1,498.000	-
(iii)	Department of Explosives	1	1	122.908	599.565
(iv)	HDIP (expenditure & receipts)	1	-	917.501	951.727
	Profile of MoE (PD)/Bodies/Dep.	4	4	3,192.958	1,286,804.093
2	Autonomous Bodies / PSEs etc. under the PAO				
	Audited Autonomous Bodies / PSEs etc. under the PAO				
(i)	OGDCL	1	1	368,339.758	569,069.141
(ii)	PPL	1	1	217,979.327	651,251.516
(iii)	PSO	1	1	3,594,477.429	3,831,997.808
(iv)	SNGPL	1	1	1,551,314.132	1,673,779.024
(v)	SSGC-LPG	1	1	34,431.165	38,768.434
(vi)	SSGC	1	1	417,556.592	445,116.878
(vii)	ISGS	1	1	784.045	456.771
(viii)	PLL	1	1	174,394.305	132,445.755
(ix)	SML	1	1	3,987.228	7,450.993
(x)	ENAR	1	1	129.614	92.969
	Sub-total	10	10	6,363,393.595	7,350,429.289
3	Un-Audited Autonomous Bodies / PSEs etc. under the PAO				
(i)	LCDCL	1	-	-	-
(ii)	PMDC	1	-	4,806.988	7,231.102
(iii)	GHPL	1	-	103,929.115	152,998.020
(iv)	MARI	1	-	172,542.621	213,954.704
(v)	PARCO	1	-	-	-
(vi)	PRL	1	-	309,442.165	408,015.484
(vii)	MOL	1	-	-	-
(viii)	PMPL	1	-	-	-
	Sub-total	8	-	590,720.889	782,199.310
	Profile of autonomous Bodies / PSEs etc. under the PAO	18	10	6,954,114.484	8,132,628.599

(Source: Annual Audited Accounts)

(LCDCL is not performing its function due to non-renewal of Lakhra lease by Sindh Government which was under litigation. MPCL, PARCO and PRL refused to get audited and audited accounts were not available)

Annex-2(ii)

Audit profile of OGRA under Cabinet Division

(Rs in million)

Sr. No.	Description	Total Nos.	Audited	Expenditure audited FY 2023-24	Revenue audited FY 2023-24
1	OGRA	1	1	1,642.918	1,554.485

(Source: Annual Audited Accounts)

Annex-3

Non-submission of Annual Audited Accounts by PSEs

Annual audited accounts of Public Sector Enterprises for the financial year 2023-24 were to be provided to the Directorate General Audit, Petroleum and Natural Resources, Lahore by December 31, 2024. Despite requests, the below mentioned organizations did not provide their annual audited accounts for the year 2023-24 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
Petroleum Division		
1	SNGPL	2023-24
2	SSGC	2022-23 & 2023-24
3	PLL	2023-24
4	GHPL	2023-24
5	ISGS	2023-24
6	ENAR	2023-24
7	PMDC	2023-24
Cabinet Division		
8	OGRA	2023-24

Annex-4**Para No. 2.1.4.33****Inadmissible claim of wellhead and well operations expenditure, direct operating cost and transportation cost as RPC – Rs 331.330 million**

(Amount in Rs)

Sr. No.	Special Audit Team No.	Audit Observation No.	Nature of Expenditure claimed as RPCs	Royalty
1	SAT-I	8	Production expenses relating to below well	1,250,020
2		18	Production expenses relating to below well	**48,722,756
3		21	Well maintenance /well operations	1,756,246
4	SAT-II	3	Well operations	**18,192,143
5		6	Well operations	**432,909
6		11	Well operations	**6,245,552
7		12	Project personnel cost at well operations	2,932,175
8		14	Project personnel cost at well operations	2,866,949
9		22	Project personnel cost at well operations	12,689,217
10		8	Location maintenance at drilled well maintenance	541,985
11		23	Well surface facility, business travels, well site security, third party driver cost	23,984,000
12		24	Well surface facility, business travels, well site security, third party driver cost	44,137,000
13		29	Marriage contribution, Business Development funds, Eid Bonus, Safety Audit and inspection	23,750,000
14		30	Business travels, third party driver cost, expats taxation	66,010,000
15		33	Over and above 10% indirect operating cost	17,933,000
16		34	Over and above 10% indirect operating cost	29,355,000
17		5	Marriot Islamabad, Serena Islamabad, Pearl continental hotel Karachi. Banquet hall	181,532
18		7	Land compensation	517,719
19		9	Rent of LPG drums	1,181,067
20		10	Cost not analysis	521,500
21		16	Legal charges, professional fee against	971,411

			civil suits	
22		17	COW miscellaneous security charges	533,576
23		18	Reclassified Opex charges	3,766,998
24		19	Monthly storage charges of condensate	8,761,093
25		20	Third party supervisory services of condensate	464,173
26		21	Jubilee General life insurance company	3,158,925
27	SAT-III	3	Land rent of wells	6,744,720
28		5 *	Produce water cost, ex-tree services	1,619,040
29		9	Produce water cost, ex-tree services	845,351
30		11	Well maintenance, land compensation of wells	287,126
31		15	Well head and ex-tree services	978,111
Total				331,331,294

*The amount pointed out was in dollars converted into Rs at the rate of US\$ 1 = Rs 101.82

** The amount 73.593 has been recovered and verified by Audit

Annex-5(i)
Para No. 2.3.4.10

Non-completion of Exploration and Development wells (CWIP)

Sr. No.	Description	Field	CWIP Group	Amount June 30, 2024
1	Kandhkot 47	Kandhkot	Dev. Well	852.494
2	Mela 8	Nashpa	Dev. Well	1,731.316
3	Miano-3 Workover	Miano	Dev. Well	128.763
4	Drilling of Adhi-35	Adhi	Dev. Well	1,321.711
5	Adhi South 8 (LLIs)	Adhi	Dev. Well	900.279
6	Adhi South 9 (LLIs)	Adhi	Dev. Well	113.998
7	Miano-12 Workover & Frac	Miano	Dev. Well	0.372
8	Miano 30	Miano	Dev. Well	97.573
9	Makori Deep-3	TAL	Dev. Well	20.894
10	Rizq-5	Kirthar	Dev. Well	1,066.227
11	Jugan 2 ST WO	Latif	Dev. Well	237.893
12	Sui-73(M) Deepening Workover	Sui	Dev. Well	160.415
13	Sui-71(M) Deepening Workover	Sui	Dev. Well	38.835
14	Nashpa-4 W/O	Nashpa	Dev. Well	343.386
15	Kandhkot 45 (26.06.2018)	Kandhkot	Dev. Well	-
16	1st Exploratory Well, Wafiq X-1	Gambat South	Exp. Well	1,208.640
17	Zafir X-1, Gambat South	GS	Exp. Well	448.581
18	Dolphin X-1 (Sirani X-3)	SIRANI	Exp. Well	78.109
19	Badeel X-1 (GS X-16) Lead 'K'	Gambat South	Exp. Well	820.084
20	Margand X-1	Margand	Exp. Well	4,562.125
21	Margand X-1 (APP)	Margand	Exp. Well	60.789
22	Razgir-1 (Tal)	Tal	Exp. Well	1,341.052
23	Shahbandar Jhim	Shah bandar	Exp. Well	789.087
24	Rayyan-1 (Kirthar)	Kirthar	Exp. Well	929.456
25	Durug X-1	Baska	Exp. Well	1,540.996
26	Savi Ragha 1 Appraisal	Baska	Exp. Well	399.987
27	Rafat-1 (W2) well	Kirthar	Exp. Well	112.962
28	Dhok Sultan-3 (Appraisal-2)	Dhok Sultan	Exp. Well	23.387
29	Pateji X-1 (Shahbandar X-3)	Shah bandar	Exp. Well	100.467
30	TOR-1 (Latif)	Latif	Exp. Well	649.782
31	Bazil X-1 (13.05.2022)	-	Exp. Well	-
32	Pandarani X-1 (22.06.2021)	-	Exp. Well	-
33	Khipro East 1 (30.06.2021)	-	Exp. Well	-
34	Qasar X-1 (30.06.2021)	-	Exp. Well	-
35	Bollan West X-1 (26.11.2018)	-	Exp. Well	-

Annex-5(ii)
Para No. 2.3.4.10

Statement showing non-completion of 23 development projects
(Rs in million)

Sr. No.	Project Name	Amount
1	SML Compression Upgradation Project (c/f)	1,300
2	Service Exchange of GG of TUCO-C (c/f)	1,020
3	GPF-IV Compression Project (c/f)	700
4	Nitrogen Generation System (SML Comp) (c/f)	664
5	Feeder-line Project for well Shahpur Chakar (c/f)	458
6	Control, Fire & Gas System of Generator (c/f)	418
7	Land Acquisition of BME BLZ	367
8	Replacement of UOP Membrane	359
9	Produced Water Treatment & Injection Facility	234
10	Adam-2 Feeder Line	202
11	Upgradation of Control of TUCO Units	350
12	Mine Development (Dead Rock Removal) (c/f)	130
13	Nakundi Iron Ore (Feasibility Study) BME	250
14	Front End Compression Modification	9,920
15	BLZ Project (BME)	1,508
16	Hatim-Faiz Feeder line	967
17	Jhim East X-1 Feeder Line	128
18	Savi Raga Flow line	2,784
19	Service Exchange of TUCO-A	1,674
20	Other Projects	2,399
	Total	25,948

Annex-6**Para No. 2.5.4.2**

**Non-realization of gas charges and security shortfall from various defaulters
- Rs 181,006.465 million**

(Rs in million)

Sr. No.	Formation	DP No.	Description	Amount
1	SNGPL	2989	Loss due to delayed action against gas theft cases	192.944
2	SNGPL	2992	Non-recovery of gas charges from active Other Than Domestic (OTD) consumers	19,679.000
3	SNGPL	2994	Non-realization of gas charges from disconnected domestic defaulters	287.426
4	SNGPL	2996	Non-recovery / adjustment of security short fall from CNG consumers	42.194
5	SNGPL	2997	Non-realization of gas charges from disconnected Other Than Domestic (OTD) consumers	2,670.660
6	SNGPL	3004	Non-recovery of gas theft by non-consumers through illegal gas network connections	607.143
7	SNGPL	3006	Loss on account of gas theft by various commercial and industrial customers	619.452
8	SNGPL	3059	Non- recovery of gas pilferage charges	28.902
9	SNGPL	3061	Non-recovery of gas pilferage and theft charges from domestic and commercial consumers	109.578
10	SNGPL	3077	Non-recovery of security shortfall from active consumers	437.142
11	SNGPL	3089	Non - recovery of outstanding dues from active / disconnected domestic, commercial and industrial consumers	1,232.450
12	SNGPL	3193	Non-recovery of outstanding gas charges from power sector consumers	112,275.000
13	SNGPL	3202	Non-recovery of gas pilferage and theft charges from the consumers	86.008
14	SNGPL	3203	Non-recovery of cost of RLNG from SSGC	41,743.000
15	SNGPL	3220	Non-recovery of gas arrears due to delayed disconnection	950.000
16	SNGPL	3225	Non-realization of gas pilferage charges	39.626
17	SNGPL	3235	Non-recovery of arrear against excessive usage of gas than prescribed free gas facility limit	5.940
			Total	181,006.465

Annex-7**Para No. 2.6.4.20****Non-observance of transparency and merit policy in appointments**

Sr. No.	Name of employee	Post / Grade as per HR manual	Grade offered	Remarks
1	Lt. Col. (R) Shoaib Ahmed	DGM	VII	His appointment was made without advertisement for the post of DGM (VII). Further, his appointment was not approved by Board as it is evident from record that Board in its 423 rd meeting held on 01.01.2013 approved and authorized the management to appoint only two employees i.e. Brig (R) as DG (Security in Grade VIII and as GM (Manufacturing) also in grade VIII on salaries within pay and scale of Grade VIII.
2	Mateen Sadiq	Assistant Company Secretary / V	VI	i. In advertisement, designation was only given and grade was not mention. The grade of advertised designation was V (as per HR manual) but contrary to this appointment was in grade VI in violation of Rule. ii. Security clearance was not done. iii. Previous experience was not got verified from previous employers iv. As in new clipping there was allegation that he was expelled on charge of corruption v. He was awarded dual charge of HR department which was conflict of interest vi. Increase in his salary more than 100%is unprecedented and incomprehensible by all means and is unjustified

3	Muhammad Amin Rajput	SGM (Internal Audit)	IX	i. There was no any advertisement for recruitment for the post of SGM (internal Audit)-Grade-IX. ii. However, there was an advertisement regarding recruitment of GM (Internal Audit) grade-VIII iii. Further there was not any approved post of SGM-Internal Audit of grade IX as per approved organogram of the company. iv. Security clearance was not done. v. He was not having sufficient experience for CFO. vi. Cash payment ranging up to Rs 4.000 million was paid to him in violation of SOP of the company. vii. Security guards were deputed at his residence illegally.
4	Shahbaz Aslam	DGM(HR)	VII	There was no any advertisement for recruitment for the post of grade VII
5	Shaikh Zubair Ahmed	Deputy Manager-IT	III	i. His qualification was not relevant of his job. ii. Business Administration (Bachelor)-ST Celements University-West Indies (07.05.2007) iii. MBA-University of Sindh-Jamshoro, Sindh, Pakistan (07.09.2017).
6	Syed Muhammad Saeed Rizvi	GM, Manufacturing		i. As advertisement the required qualification was Engineering degree, A degree preferably in Electrical, Electronic, Mechanical, Industrial or Computer would be given preference. ii. Contrary to above, a candidate having BSC, Math, MSc, Physics and MSc Engineering Management (USA). iii. Audit held that qualification was not as per advertised criteria and further HEC had also not accepted his degree as engineering degree.

Annex-8**Para No. 3.1.4.3****Non-deposit of surplus receipts and fine & penalties in Federal Consolidated Fund - Rs 807.724 million**

(Rs million)

Sr. No.	DP No.	Subject	Amount	DAC Minutes
1	3105	Non-deposit of surplus receipts over expenditure to the Federal Consolidated Fund.	508.775	The DAC directed OGRA to comply PFM Act in letter and spirit and ensure deposit of at least 80% presumptive surplus into FCF within a month after closer of Financial Year.
2	3107	Non/late deposit of Penalties in FCF after decision of appeals (delay up to 1634 days)-LPS payable to FCF by OGRA	92.606	The DAC directed OGRA to submit revised reply in accordance with its verbal stance before the DAC and get the record verified from the Audit
3	3113	Late deposit of banking instruments (pay orders & cheques) in bank delay rang up to 1289 days.	18.642	The DAC directed OGRA to strength internal control to avoid such violations in future
4	3117	Violation of PFM Act, 2019 due to quarterly deposit of fine & penalties in FCF instead of immediate deposit.	101.88	The DAC directed OGRA, subject to pending appeal/ litigation, to deposit the penalty & fine amount in FCF on monthly basis.
5	3118	Collected fine & penalties neither deposited in FCF nor shown as payable-fine & penalty	23.14	The DAC directed OGRA to reconcile and get the record verified from Audit
6	3119	Non-recovery of 50% balance penalty after decision of Authority	62.680	The DAC directed OGRA to expedite the pending recovery and improve its internal control/ procedures
7	3120	Non-determination of final wellhead gas price in respect of 148 fields operated by fields thereby non-realization of notification fee	28.600	pending the 32 Draft Paras, pertaining to regulatory functions of the OGRA, till the decision of Supreme Court of Pakistan on appeal filed by Office of Auditor-General of Pakistan against the decision of Islamabad Hight Court in WP No. 1457 of 2023
8	3122	Non-compliance to the provisions of PFM Act & OGRA regulations and un-	11.869	The DAC directed OGRA to ensure internal audit on regular basis in accordance with the relevant

		justified payment of salary without performing core function		provisions of PFM Act.
Total			807.724	

Annex-9
Para No. 3.1.4.4

**Non/short- realization of annual fees from licensees –
Rs 514.127 million**

(Rs million)

Sr. No	DP	Subject	Amount	DAC minutes
1	3101	Non/late payment of differential amount of annual fee with delay ranging up to 583 days	20.794	The DAC directed OGRA to strengthen internal controls, recover the pending amount and get the record verified from the Audit
2	3102	Short realization on annual fee due wrong interpretation of gross revenue by M/s PGPCL	70.450	The DAC observed different interpretation of same provision by two different companies and directed OGRA to look into the matter, issue notice to defaulter, recover the difference and get the record verified from the Audit.
3	3124	Short assessment of annual fee by wrongly inclusion of adjustable income tax in cost of gas -	17.438	The DAC directed OGRA to pursue the recovery from concerned licensee and get the record verified from Audit.
4	3127	Non/short payment of annual fee by M/s Pak Arab Fertilizer	6.552	The DAC directed OGRA to get the record verified from Audit.
5	3257	Non-realization of annual inspection fee from CNG stations.	398.893	The DAC directed OGRA to submit revised reply in accordance with their verbal stance in the DAC meeting and get the record verified from Audit.
Total			514.127	

Annex-10**Para No. 3.1.4.19**

**Non-protection of right of general consumer who were being exploited by
short delivery, overcharging and sale of sub-standard POL product -
Rs 152.572 million**

(Rs million)

Sr. No.	DP No	Subject	Amount	Remarks
1	3097	Sale of sub-standard POL products due to non-confiscation of product at time of quality test failure-Valuing Rs 42.077 million	42.08	Non-Confiscation of sub-standard product (HSD+MS)
2	3125	Non-action against the OMCs exploited the consumers by delivering short quantity of petroleum product valuing Rs 16.669 million	16.67	Less filling-
3	3129	Non protection of consumers by OGRA against OMCs over-charging Rs 7.425 million.	7.43	Over-charging by OMCs
4	3130	Non-imposition of penalty on sale of sub-standard lubricants Rs 20 million-	20.00	non-penalty on low quality lubricants
5	2602	Non-imposition of penalty on retail outlets/petrol pumps despite found over charging Rs 20 million-	0	Over-charging-
6	3104	Weak enforcement function-non-performing function/imposition of penalty/recovery of penalty.	37.5	Weak enforcement function
7	3136	Non/Short imposition of penalty on OMCs for sale of sub-standard POL product Rs 28.892 million	28.892	Non/short imposition of penalty
Total			152.572	

Annex-11
Para No. 3.1.4.22

**Non/late-decision of the appeals despite lapse of 1,686 days -
Rs 300.514 million**

(Rs million)

Sr. No	DP	Subject	Amount	DAC minutes
1	3106	Undue benefit to defaulters by late decision of appeals/reviews/petition delay range up to 1686 days	73.590	The DAC after detailed discussion pended the 32 Draft Paras, pertaining to regulatory functions of the OGRA, till the decision of Supreme Court of Pakistan on appeal filed by Office of Auditor-General of Pakistan against the decision of Islamabad High Court in WP No. 1457 of 2023
2	3108	Non-decision of the appeals despite lapse of 1485 days	61.10	
3	3247	OGRA failure to decide the Final Revenue Requirement (FRR)-of Sui Companies within stipulated time	0	
4	3109	Non- recovery of fine from licensees failing to deposit the decided penalty due to non-maintaining of compendium of Authority decisions	165.824	The DAC directed OGRA to submit revised reply in accordance with its verbal stance before the DAC and get the record verified from the Audit
Total			300.514	