



**AUDIT REPORT
ON
THE ACCOUNTS OF
PUBLIC SECTOR ORGANIZATIONS
(TELECOMMUNICATION SECTOR)
AUDIT YEAR 2021-22**

AUDITOR-GENERAL OF PAKISTAN

PREFACE

Articles 169 and 170 of the Constitution of Islamic Republic of Pakistan, 1973, read with Sections 8 and 12 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 accounts of receipts and expenditure from the Consolidated Fund and Public Accounts of the Federation and of each Province; and the accounts of any authority or body established by the Federation or a Province.

The report is based on audit of the accounts of Public Sector Organizations (Telecommunication Sector) for the Financial Year 2020-21. The Director General of Audit, Postal and Telecommunication Services (P&TS) conducted audit during 2021-22 on test check basis with a view to report significant findings to the relevant stakeholders. The main body of the Audit Report includes only the systemic issues and significant audit findings. Relatively less significant issues are listed in the Annex-A of the Audit Report. The audit observations listed in the Annex-A shall be pursued with the Principal Accounting Officers at the DAC level and in all cases, where the Principal Accounting Officers do not initiate appropriate action, the audit observations will be brought to the notice of the Public Accounts Committee (PAC) through the next year's Audit Report.

Thematic Audit - new concept, has been introduced and made part of this report at Chapter-10. It is an attempt to improve organization's performance through critically reviewing its business processes to identify those risks which are hindering it from achieving its intended objectives.

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

The audit report has been finalized in the light of discussions in the DAC meetings and written responses of the organizations.

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

Islamabad
Dated: 24th February, 2022

-Sd-
(Muhammad Ajmal Gondal)
Auditor-General of Pakistan

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ABBREVIATIONS & ACRONYMS

ADP	Annual Development Plan
ADOS	Assistant Director Ordnance Store
AI	Artificial Intelligence
ACSP	Accredited Certificate Service Provider
ALF	Annual License Fee
ANC	Annual Numbering Charges
APC	Access Promotion Contribution
ARDs	Annual Regulatory Dues
ATIR	Appellate Tribunal Inland Revenue
BTS	Base Transceiver Station
CBC	Community Broadband Centres
CDWP	Central Development Working Party
CGR	Corporate Governance Rules
CMO	Cellular Mobile Operators
DAC	Departmental Accounts Committee
DDWP	Departmental Development Working Party
DPC	Departmental Promotion Committee
DPLC	Domestic Private Leased Circuit
DSL	Digital Subscriber Line
DXX	Digital Cross Connect
ESR	Employees Service Regulations
ETO	Electronic Transaction Ordinance
FAP	Foreign Aided Project
FBA&A	Financial Budgeting Accounting & Audit
FCC	Final Capital Cost
FCF	Federal Consolidated Fund
FED	Federal Excise Duty
FFI	Fact-Finding Inquiry
FOB	Freight on Board
FWO	Frontier Works Organization
3G/4G	Third/Fourth Generation
GSM	Global Systems of Mobile

ICT	Information Communication Technology
IHRC	Internal Human Resource Committee
IGE	International Gateway Exchange
IPR	Intellectual Property Rights
ISF	Initial Spectrum Fee
ISO	International Organization for Standardization
KKH	Karakoram Highway
KPIs	Key Performance Indicators
LC	Letter of Credit
LD	Liquidated Damages
LDI	Long Distance International
LL	Local Loop
LPAF	Late Payment Additional Fee
LTE	Long Term Evolution
MES	Military Engineering Service
MSDN	Multi Services Data Network
NAB	National Accountability Bureau
NGMS	Next Generation Mobile Service
NIDA	National Income Daily Account
NITB	National Information Technology Board
NHA	National Highway Authority
NOC	No Objection Certificate
NTN	National Tax Number
OEM	Original Equipment Manufacturer
OFC	Optical Fibre Cable
OSP	Outside plant
PAO	Principal Accounting Officer
PAC	Provisional Acceptance Certificate
PAC	Public Accounts Committee
PEC	Pakistan Engineering Council
PCC	Provisional Capital Cost
PEMRA	Pakistan Electronic Media Regulatory Authority
PI	Principal Investigators
PIO	Principal Investigating Organization

PLA	Profit and Loss Account
POL	Petrol Oil & Lubricant
PPRA	Public Procurement Regulatory Authority
PRI	Primary Rate Interface
PSDP	Public Sector Development Programme
PST	Punjab Sales Tax
PSTN	Public Switched Telephone Network
PTRA	Pakistan Telecommunication (Re-organization) Act
PTET	Pakistan Telecommunication Employees Trust
PWD	Public Works Department
R&D	Research and Development
RFP	Request for Proposal
RIO	Reference Interconnect Offer
ROW	Right of Way
SDG	Strategic Development Goals
SDR	Software Defined Radios
SECP	Security & Exchange Commission of Pakistan
SIM	Subscriber Identity Module
SLA	Service Level Agreement
SSA	Service Subsidy Agreement
USF	Universal Service Fund
TDM	Time Division Multiplexing
TT	Telegraphic Transfer
VIM	Virtual Interconnect Media
VPN	Virtual Private Network
VUP	Virtual University of Pakistan

EXECUTIVE SUMMARY

The Audit Report presents results of the audit of the accounts for Financial Year 2020-21 of Public Sector Organizations working in Telecommunication Sector which include Pakistan Telecommunication Authority (PTA), Frequency Allocation Board (FAB), National Radio and Telecommunication Corporation (NRTC), Electronic Certification Accreditation Council (ECAC), Ignite National Technology Fund & Company, National Telecommunication Corporation (NTC), Special Communications Organization (SCO), Telecom Foundation (TF) and Universal Service Fund & Company (USF Co).

The telecommunication organizations (PTA, FAB, NTC, Ignite and USF) were established under Pakistan Telecommunication (Re-organization) Act 1996 (amended in 2006). NRTC was registered as a private limited company incorporated under the Companies Act, 2017. Special Communications Organization (SCO) was established under the directives of the Prime Minister in 1976. Telecom Foundation (TF) was established under the Charitable Endowments Act 1890 in November 1991. The Electronic Certification Accreditation Council (ECAC) was established on 18th September, 2004 under Electronic Transactions Ordinance (ETO) Ordinance 2002. PTA & FAB are under the administrative control of the Cabinet Division. The Ministry of Defence Production (MoDP) administers NRTC, whereas, ECAC, Ignite, NTC, SCO, TF and USF Company are under the control of the Ministry of Information Technology & Telecommunication (MoITT).

Director General Audit, Postal & Telecommunication Services has carried out audits of the above nine (09) entities of the Telecommunication Sector. The report has been finalized in light of detailed discussions and directives issued thereof during DAC meetings with the respective PAOs. Out of these entities NRTC, Ignite, SCO, USF & PTA provided financial statements for the year 2020-21. NTC, TF, FAB and ECAC did not provide their financial statements for the year 2020-21 till finalization of this report, therefore, audit could not comment on the financial health and

discipline of these entities. Additionally, a thematic audit titled “Telecommunication infrastructure development by USF” was also conducted during the financial year 2020-21.

The Directorate General Audit had a budget allocation of Rs 73.751 million for the financial year, a human resource of 37 officers & allied staff and utilized 3,104 man-days for the audit of these entities.

a) Scope of Audit

This office is mandated to conduct audit of forty-two (42) formations working under the Cabinet Division, Ministry of Defence Production and Ministry of Information Technology & Telecommunication. The 42 formations have incurred an expenditure of Rs 31.362 billion and collected receipt of Rs 55.669 billion during the financial year 2020-21.

Audit coverage relating to expenditure for the current audit year comprises twenty (20) formations of 03 PAOs/Ministries having a total expenditure of Rs 17.560 billion for the Financial Year 2020-21. In terms of percentage, the audit coverage for expenditure is 56% of auditable expenditure.

Audit coverage relating to receipt for the current audit year comprises twenty (20) formations of 03 PAOs/Ministries having a total receipt of Rs 16.467 billion for the Financial Year 2020-21. In terms of percentage, the audit coverage for receipt is 30% of auditable Receipt.

b. Recoveries at the instance of audit

As a result of audit, a recovery of Rs 9,580.158 million was pointed out in this report. Recovery effected from January to December 2021 was Rs 5,632.630 million which included recovery pointed out during current as well as previous years.

c. Audit Methodology

Field audit was conducted based on the review of the record, field visits, physical inspections, and periodic discussion with management. The permanent files maintained in the office of the Director General Audit (P&TS) were constantly updated after obtaining the relevant information from the entities which helped in identifying risk areas during the planning phase.

d. Audit Impact

On the advice of Audit, Telecommunication entities have taken the following corrective measures:

- The management of PTA has reconciled payments to FCF and Public Account of MoITT.
- Ignite National Technology Fund has finalized its HR manual and submitted it to the competent forum for approval.
- NTC management has submitted its revised employee's service regulations for approval to the competent forum in compliance with DAC and PAC directives.
- SCO management has started deduction of income tax on payment of commission/rebate to franchises w.e.f. 18th November, 2021.
- SCO has started charging FED @ 19.5% on internet services from January 2021.
- The telecommunication entities have agreed to strengthen the mechanism for timely recovery of receivables from designated customers, telecom operators and others.
- The telecommunication entities have agreed to strengthen the internal controls and internal audit wings of their organizations.

e. Key Audit Findings of the Report

The Audit Report comprises sixty nine (69) Audit Paras pointing out serious irregularities:

- i. Non-production of record was highlighted in two (02) cases¹.
- ii. HR related irregularities were highlighted in seven (07) cases amounting to Rs 501.941 million².
- iii. Violation of PPRA Rules was highlighted in fifteen (15) cases amounting to Rs 41,635 million³.
- iv. Four (04) cases of management of accounts with commercial banks were highlighted amounting to Rs 2,413.558 million⁴.
- v. Value for money and service delivery issues were highlighted in four (04) cases amounting to Rs 33,054 million⁵.
- vi. Recoveries were pointed out in seventeen (17) cases amounting to Rs 9,580.158 million⁶.
- vii. Twenty (20) paras relating to other irregularities amounting to Rs 6,066.362 million were also included in the report⁷.
- viii. There was huge difference in subsidy awarded to various operators by USF Company from 10 million to 141 million per site⁸.

¹1.4.1,2.4.1

²2.5.1,2.5.2,5.3.1,6.4.1,6.4.2 & 9.4.1

³2.5.3,3.3.1,4.4.1,5.3.2,5.3.3,6.4.4,6.4.5,6.4.6,7.4.1 to 7.4.3,8.4.1,8.4.2,9.4.2,9.4.3

⁴5.3.4,6.4.5,7.4.4 & 7.4.5

⁵2.6.1,3.4.1,5.4.1 & 9.5.1

⁶1.5.1,1.5.2,1.5.3,3.5.1,3.5.2,3.5.3,5.5.2,6.5.3,6.5.4,6.5.6,6.5.12,7.5.2 to 7.5.4,8.5.1,8.5.2,9.6.2

⁷1.5.4,1.5.5,4.5.2,5.5.1,5.5.3,5.5.4 to 5.5.6,6.5.1,6.5.2,6.5.5,6.5.7,6.5.8 to 6.5.11,7.5.1,7.5.5, 9.6.1,9.6.3

⁸6.2.3.5 (1) of Thematic Audit Chapter

f. Recommendations

- i) Responsibility for non-production of records should be fixed.
- ii) Telecommunication entities should update and strengthen their internal controls and compliance with rules and regulations relating to HR/employee related matters.
- iii) Compliance of Public Procurement Regulatory Authority (PPRA) Rules, 2004 for procurement of goods and services must be ensured through continuous capacity building of staff and persistent implementation of rules to ensure economy and transparency in public procurement.
- iv) The management of telecom entities should comply with standing instructions regarding the closure of bank accounts.
- v) The management of telecom entities should make renewed efforts to ensure economy, efficiency and effectiveness in their financial decisions and projects.
- vi) The management of telecom entities should make efforts to recover their outstanding receivables/dues for better financial management.
- vii) Irregularities and unauthorized payments may be probed, responsibilities be fixed, recoveries effected and disciplinary action be taken against those at fault.
- viii) USF Company should fix reserve price/limit of maximum subsidy to be granted before auction of any telecom project so that, fair subsidy could be granted to the Service Providers (SPs).

SECTORAL ANALYSIS

Overview of Telecom Sector

Telecommunication sector is considered to be a cluster of telecom operators, internet service providers, satellite companies, associated tech entities and government regulators that make communication possible on a global level. Together, these operators create an ecosystem that allows data in words, voice, audio and video to be sent across the globe through internet, voice telephony, air waves, cables through wires or wirelessly⁹. Telecom sector is defining the future of communication and is indeed a strategic resource. The world had witnessed tremendous growth in mobile and internet usage and the trend continues to grow at a phenomenal rate. This can be attributed to fast paced transformation in mobile and internet technologies like next generation mobile services, cloud computing, increased coverage of satellites and massive penetration of smart devices. The evolution continues with the launch of 5G services and evolving artificial intelligence which will have a positive impact on telecom services.

Telecommunication Sector in Pakistan

Pakistan is following the global trend as people are fast becoming accustomed to information technology. As a result, the economy is moving towards digitization with introduction of digital services including e-commerce, e-customer care, e-banking, mobile banking, and other ICT services. The penetration of digital technology at the level of the masses has been galvanized recently by Covid-19 related lockdowns when people, especially in urban centres, had to take recourse to electronic means of communication.

According to Pakistan Telecommunication Authority (PTA), total number of subscribers (mobile & fixed) in Pakistan was 186.8 million with

⁹ www.investopedia.com/ask/answers/070815/what-telecommunications-sector.asp

net addition of 15.7 million subscribers from July 2020 to June 2021¹⁰. There were 102.69 million broadband users in financial year 2020-21. Broadband penetration in Pakistan is 46.90% with 99.85 million 3G/4G subscribers. Nearly 18.2 million broadband subscribers were added in financial year 2020-21. These figures are still on the lower side when compared to its neighboring country.

With the development of e-commerce, there is an urgent need for effective regulatory laws. Although such legislation was first time introduced in 2002 through Electronic Transactions Ordinance (ETO 2002) the first cyber bill to protect e-commerce in Pakistan, the implementation of these laws has remained a challenge. The rapid growth of telecom sector, requires a stringent regulatory framework for protecting the rights of the customers. Ministry of Information Technology and Telecommunication (MoITT) is the arm of the Federal Government that is entrusted, inter alia, with the development of telecommunication links and regulation of the sector.

Role of Federal Government in telecommunication sector

The Federal Government has established different public sector entities which are responsible for different functions and operations i.e. PTA, FAB, NTC, SCO, USF, Ignite, NRTC and TIP etc. The telecommunication sector is a major contributor to GDP and can play a vital role in the economy by contributing to the well-being of society. The Federal Government introduced Telecommunication Policy 2015 which envisaged licensing regime to be enhanced & optimized to cater to emerging technologies and market trends. Licensing policy framework was required to be reviewed by MoITT in consultation with PTA keeping in view new market trends and innovation in telecom sector. Further, PTA, in consultation with FAB, was required to prepare a re-farming framework to be approved by the Federal Government by 31st December 2016. However,

¹⁰PTA's letter dated 14.12.2021

this framework is yet to be developed as no progress has been reported by the authorities in this regard.

Role of telecommunication regulators

Public Sector Telecommunication in Pakistan mainly consists of regulators, service providers and development organizations. PTA and FAB act as regulators of telecommunication sector which are mandated to implement the policy directives issued by the Federal Government for issuance, renewal and cancellation of various types of licenses. These regulators are also entrusted to promote and protect the interests of users, rapid modernization of telecommunication systems, interference free spectrum and provide a wide range of high quality, efficient, cost-effective & competitive telecommunication services in Pakistan. Both PTA and FAB are functionally linked with MoITT but administratively report to Cabinet Division.

Telecom sector generates revenue for the government through authorization and renewal of telecom licenses, auction of spectrum and levying regulatory fees on operators. According to PTA, a total of Rs 218.23 billion were generated during the year 2020-21 (Rs 290.12 billion: 2019-20) on this account ¹¹.

PTA introduced Mobile Device Manufacturing (MDM) registrations 2021 on 28th January, 2021. Till date, a total of 26 companies have applied and were issued MDM authorization enabling them to manufacture mobile devices in Pakistan which include both local and international brands. This will help in job creation and reduce the prices of mobiles.

In order to report on how efficiently and effectively these regulators are performing their roles, a thematic audit was planned by the office of the Director General Audit, Postal and Telecommunication. However, both

¹¹ PTA's letter dated 14.12.2021 addressed to the office of the DGA, PTS

PTA and FAB refused to cooperate in this regard under the plea that the Auditor General of Pakistan does not have the mandate to audit their functional areas. The said study could not be completed due to their non-cooperation.

Electronic Certification and Accreditation Council (ECAC) was established under the ETO 2002. The basic purpose was to grant and renew accreditation certificates to Certificate Service Providers, their cryptography services and security procedures. It remained completely dysfunctional till 2015. An effort was made to revive it but it again failed to perform its functions owing to lack of interest on the part of MoITT and non-independent management. MD, NTC has been assigned the charge to lead the ECAC during most part of its existence. As a result, the project “Root Certification Authority with Public Key Infrastructure (PKI) and Repository” started to achieve its objectives as envisaged in the ETO 2002. However, the project was assigned to NTC without following PPRA rules.

Role of telecommunication service providers

National Telecommunication Corporation (NTC) and Special Communication Organization (SCO) are two public sector organizations that come under the category of service providers in the telecommunication sector. NTC takes care of telecommunication needs of the public sector organizations across the country, whereas SCO is responsible for providing telecom services in Gilgit-Baltistan and Azad Jammu and Kashmir. Recently, SCO was assigned the task of laying Optical Fibre Cable (OFC) linking Pakistan with its neighbour, China through a foreign aided project sponsored by Chinese Government.

Role of telecommunication infrastructure development organizations

Universal Service Fund Company (USF) established in 2006 is responsible for infrastructure development in un-served and under-served areas of the country whereas Ignite sponsors research and development programmes. The telecom operators in the country have to pay 1.5% of

their gross profit towards Universal Service Fund and 0.5% for Research and Development Fund, both being maintained by MoITT. The billing responsibility lies with the PTA, whereas custody of these funds, approval of projects and allocation of funds rests with the MoITT. USF identifies the projects, gets approval from the policy board working under the ambit of MoITT and allocates these projects to the telecom operators as per PPRA rules. Monitoring and timely completion of these projects is also the responsibility of USF.

As per claims of the USF, over the last 3 fiscal years, 30 Projects have been launched to cover 10,315 *mauzas* and a population of 21.8 million¹². As of 30th June 2021, only 3,835 *mauzas* have been covered showing the slow pace at which the organization is working. Funds worth more than Rs 32 billion are lying in the public account, but the company could only spend Rs 5.891 billion during the year. A number of instances of change of scopes of the projects assigned to the operators were also witnessed by audit during a thematic audit conducted during the year 2020-21. (A detailed report is part of this Audit Report).

For promoting research and development activities, the R & D Fund money is utilized through Ignite National Technology Fund Company, which was also established in 2006. In addition to sponsoring research and development, Ignite is also maintaining 5 National Incubation Centres (NICs) in the country. During the audit, it was observed that the Ignite Company was not effectively monitoring proper implementation of the terms and conditions of the contracts made with the vendors of these NICs.

Role of other organizations in telecommunication sector

National Radio and Telecommunication Company (NRTC) and Telephone Industries of Pakistan (TIP) are manufacturing concerns. These, are working under the Ministry of Defence Production. The main role of NRTC is to manufacture telecom equipment used by military

¹² USF's letter dated 28.12.2021

establishments. Over the years, it has expanded its business and has started manufacturing cellular phone jammers, number plates of vehicles for Provincial Governments, electronic systems and IT solutions for local and international clients/customers. Recently, TIP has also been merged with NRTC as its subsidiary which is planning to operationalize its manufacturing facilities. Timely delivery of equipment matters a lot for a manufacturing concern but NRTC is not delivering the telecommunication equipments within the target dates which is resulting in deduction of LD charges. Further, the stores are delivered to different organizations but their receivables remain outstanding for a considerable period of time.

Another organization in telecom sector is Telecom Foundation (TF) established in November, 1991 with the aim of providing welfare to the employees of telecom industry and their families. Most of its revenue is generated from the rent of its buildings. This organization needs a plan to increase its revenue to carry out its welfare functions. It needs to work stringently on getting contracts from the industry. Presently it has won only few projects.

Introduction of 5G Strategy and Technology Trials

Before commercial launch of 5G services, PTA unveiled a roadmap incorporating the testing of 5G technology and allied services, under the policy directive issued for introduction and trials of future wireless networks in Pakistan. PTA permitted tests and trails of 5G services under limited environment and on non-commercial basis. Successful trials were conducted by CMPak, Jazz and Telenor in 2019 and 2020 as claimed by PTA. However, the widespread use of 5G technology looks like a distant dream in case of Pakistan.

Conclusion

A number of similar nature irregularities were repeatedly observed during audit which points towards a weak internal control. The internal audit wings exist in these entities but their reports were neither prepared

nor submitted to the Board of Directors. Financial management remained poor due to huge outstanding receivables despite comprehensive recovery policies/procedures. Strong growth depends upon universal adoption of 4G/LTE and 5G services. Although telecom sector worldwide is facing revenue and growth challenges due to saturation, rapid technology changes, increasing competition, and high costs, there is a lot of growth potential for developing countries like Pakistan. As the country faces challenging times with its financial problems and resource constraints, renewed focus on telecom sector will help in bringing revenue and foreign exchange while creating diverse employment opportunities. The government should continue to strive to make the market more competitive by inducing an enabling environment, improving policymaking, enact progressive laws and regulations to attract investors.

CABINET DIVISION

CHAPTER-1

PAKISTAN TELECOMMUNICATION AUTHORITY (PTA)

Chapter-1

Pakistan Telecommunication Authority

Cabinet Division

1.1 Introduction

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

- Act as regulator to implement deregulation policy of telecommunication services issued by the Government of Pakistan (GoP);
- Grant and renew licenses for any telecommunication system and any telecommunication services on payment of regulatory fee;
- Regulate the establishment, operation and maintenance of telecommunication systems and the provision of telecommunication services in Pakistan;
- Promote and protect the interests of users, modernize telecommunication systems and provide a wide range of high quality, efficient, cost-effective and competitive telecommunication services in the country;
- Make recommendations for the Federal Government on policies for International Telecommunications; and
- Regulate arrangements amongst telecommunication service providers of sharing their revenue derived from providing telecommunication service.

B) Comments on Budget and Accounts

- 1.1.1 As per note 10.9 to the financial statements, in 2009, Ministry of Finance (MoF) had directed PTA to contribute 3% of its receipts per annum to the Competition Commission of Pakistan (CCP) pursuant to the CCP (Collection of fee & charges) Rules, 2009. PTA made provision of Rs 149,466,975 and charged as expenditure for the year 2020-21 but not paid upto 30th June, 2021.
- 1.1.2 As per note 16.3 to the financial statements, an amount of Rs 140.208 million was made as provision for doubtful receivables during the year 2020-21 as compared to Rs 101.754 million for the year 2019-20. The substantial increase in the provisions showed weak receivable management.
- 1.1.3 As per note 21 to the financial statements, it was observed that License Renewal Fee and Initial Spectrum Fee amounting to Rs 32,105 million were collected during 2020-21 from three telecom operators. PTA treated the subject collection as its receipt under the heads of revenue account 32114 & 32127 and deposited it in PTA collection accounts instead of depositing in FCF under the head C01008. While discussing the issue, DAC in its meeting held on 3rd January, 2022 directed PTA to refer the matter to Finance Division for clarification.
- 1.1.4 As per data given in financial statements, return on assets has been decreased from 1388% to 338%. The detail is as under:

Description	2019-20	2020-21
Income	139,252.247	38,570.931
Assets	10,026.502	11,397.39
Return on Assets	1388%	338%

Table-I Audit Profile of Pakistan Telecommunication Authority**(Rs in million)**

Sr No	Description	Total Nos	Audited	Expenditure audited FY 2020-21	Revenue / Receipts audited FY 2020-21
1	Formations	09	01	2,208.824	38,570.931
2	<ul style="list-style-type: none"> • Assignment Accounts • SDAs 	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	01	01	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

1.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 6,461.321 million were raised in this report which includes recoveries amounting to Rs 6,427.417 million. Summary of the audit observations classified by nature is as under:

Table-II Overview of Audit Observations**(Rs in million)**

Sr No	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities (A+B+C)	-
A	HR/Employees related irregularities	-
B	Procurement related irregularities	-
C	Management of Accounts with Commercial Banks	-
4	Value for money and service delivery issues	-
5	Others	6,461.321
Total:		6,461.321

1.3 Status of Compliance with PAC Directives

Sr No	Audit Year	Total Paras	Total Directives	Compliance		%age
				Received	Not received	
1	1997-98	07	07	07	00	100
2	1998-99	12	12	08	00	67
3	1999-00	06	06	06	00	100
4	2000-01	31	31	29	02	94
5	2001-02	09	09	05	04	56
6	2002-03	03	03	03	00	100
7	2003-04	08	08	05	03	63
8	2004-05	08	08	05	03	63
9	2005-06	10	10	08	02	80
10	2006-07	08	08	01	07	13
11	2007-08	06	06	04	03	67
12	2008-09	26	26	15	11	58
13	2009-10	26	14	04	10	28
14	2010-11	38	23	13	10	56
15	2014-15	29	12	7	5	58
15	2015-16	23	23	14	09	61
16	2016-17	21	21	15	06	72
17	2017-18	30	12	12	0	100

Audit Paras

1.4 Non-production of record

1.4.1 Non-production of record

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

During audit of PTA for the year 2020-21, it was observed that management did not provide the record relating to Thematic Audit titled “Regulatory Functions in Telecommunication Sector”, HR files of employees and record relating to Departmental Promotion Committee meetings held during the year 2020-21 despite several written and verbal requests.

Audit pointed this out to the management and PAO in November 2021. It was replied that according to opinion of the Attorney General of Pakistan dated 16-09-2021 and Section 15 of the PTA’s Act 1996, scope of audit was limited to the “accounts” of the Authority only and the audit of “Regulatory Functions of the Authority” was beyond the scope of the Auditor General of Pakistan. However, auditable HR records containing the material relating to the year 2020-21 had been provided in terms of Section 15 of Pakistan Telecommunication (Re-organization) Act 1996.

The reply was not acceptable as the powers of the Auditor-General of Pakistan regarding audit of regulatory functions have already been decided by the PAC in its meetings which were duly communicated to the

Authority as well as the PAO. Further, complete original HR files along-with noting portion was not provided.

DAC in its meeting held on 3rd January, 2022 pended the Para regarding provision of record of thematic audit. As regards the provision of HR records, the Cabinet Division noted that Audit on the accounts of a particular financial year should be limited to the record of that period instead to spread it to an indefinite period belonging to previous years which was already audited in due course of time. Therefore, DAC decided to place these divergent views before PAC to decide the fate of issue.

Audit recommends that the record demanded by the Audit be provided for scrutiny besides taking action against the persons responsible for non provision of record under section 14(3) of the AGP ordinance 2001.

(DP No. 218 & 219)

1.5 Others

1.5.1 Non-recovery of late payment additional fee from operator-Rs 5,976 million

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

During audit of PTA for the year 2020-21, it was observed that the management failed to recover an amount of Rs 5,976,373,512 from M/s World Call Telecom Ltd. on account of Late Payment Additional Fee (LPAF) as detailed below:

Sr. No.	Description	Principal Amount (Rs)	Amount of LPAF (Rs)
1	ALF	28,926,426	26,369,849
2	ALF NVCNS	31,144,637	31,462,447
3	ARFSF	401,114,163	608,454,613

4	ISF	1,021,500,000	2,498,888,500
5	R&D	34,157,622	52,393,205
6	USF	132,724,552	209,129,768
7	APC for USF	1,766,190,453	2,537,267,953
8	MW charges	6,430,975	11,638,610
9	ANC	2,195,000	768,567
Total		3,424,383,828	5,976,373,512

Audit pointed this out to the management and PAO in November 2021. It was replied that two licenses of World Call Telecom Ltd (NVCNS & WLL) had already been terminated and recovery petitions had also been filed for recovery of dues.

The reply was misleading as the record did not show any recovery petition filed by PTA on account of recovery of late payment charges as mentioned in the enforcement order dated 19th August 2020. Further, the enforcement order was issued with a considerable delay which resulted in non-recovery of dues.

DAC in its meeting held on 3rd January, 2022 pended the Para with the direction to pursue court cases vigorously.

Audit recommends that matter may be investigated for delay in recovery of late payment charges and fix the responsibility.

(DP No. 242)

1.5.2 Non-recovery of Annual Regulatory Dues - Rs 393.317 million

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

During audit of PTA for the year 2020-21, it was observed that the management failed to recover an amount of Rs 393,317,040 on account of Annual Regulatory Dues (ARDs) from the telecom operators during 2020-21. The detail is as under:

Sl. No.	Description	Amount Rs
1	Basic Telephony	37,431,138
2	Annual License Fee(ALF)-Mobile	14,909,450
3	USF Charges	227,297,159
4	R&D Contribution	78,593,640
5	Annual Spectrum Fee (ASF)	26,611,057
6	Annual License Fee (ALF)-LDI	8,474,596
	TOTAL	393,317,040

Audit pointed this out to the management and PAO in November 2021. It was replied that most of the outstanding amounts were challenged by the operators in the court of law.

The reply was not acceptable as in all cases the courts remanded back the petitions to PTA for review which had not been done by the PTA management till date. Further, NTC agreed to make payment of all outstanding dues which had not so far been recovered.

DAC in its meeting held on 3rd January, 2022 pended the para with the direction to pursue court cases vigorously.

Audit recommends that cases may be reviewed to place before the courts for recovery from the defaulters.

(DP No. 256)

1.5.3 Non-recovery of fines from operators - Rs 58.100 million

According to Section 23(C)(i) of Pakistan Telecommunication (Re-organization) Act 1996, the Authority (or any of its officers not below the

rank of Director), may, by an order in writing and giving reasons, levy fine which may extend to three hundred and fifty million rupees.

During audit of PTA for the year 2020-21, it was observed that the management imposed fines of Rs 58,100,000 on two telecom operators through six enforcement orders during the year 2020-21. However, the management failed to recover the fines from operators. The detail is as under:

Sr. No.	Name of operator	Reason of Fine imposed	Date	Amount (Rs)
1	PTML(Ufone)	Illegal sale of SIMs	30-07-2020	50,000,000
2	-do-	Security breach of customer data	31-05-2021	5,000,000
3	-do-	Quality of service	29-06-2021	850,000
4	CM Pak (Zong)	Quality of service	29-06-2021	250,000
5	-do-	Quality of service	29-06-2021	1,900,000
Total:				58,000,000

Audit pointed this out to the management and PAO in November 2021. It was replied that enforcement orders to impose fines had been issued according to powers conferred under section 23 of the Pakistan Telecommunication (Re-organization) Act, 1996. Fines were challenged by the operators in the court of law.

The reply was not acceptable as the grounds on which court cases were filed, were not provided despite written and several verbal requests. However, PTA failed to recover the fines from the operators despite issuance of its enforcement orders.

DAC in its meeting held on 3rd January, 2022 pended the para with the direction to pursue court cases vigorously.

Audit recommends that court cases and updated status may be shared with audit.

(DP No. 257)

1.5.4 Un-authorized promotion of officers causing overpayment and unjustified payment of pay & allowances - Rs 28.084 million

According to Regulation 21(2) of PTA Employees Service Regulations 2008, an employee shall only be considered eligible for promotion from EG-III to EG-IV & EG-IV to SEG-I by the Departmental Promotion Committee (DPC) if he has completed three years and four years length of service in EG-III & EG-IV respectively. Further, according to inquiry reports conducted on Audit Paras of Audit Report 2008-09 issued by the Cabinet Division's vide UO No. 3/6/2018/RA-I/PTA/FAB dated 05th July, 2021, the appointment of AD (HR) was declared unjustified due to non-possession of MBA-HR degree.

During audit of PTA for the year 2020-21, it was observed that services of twelve (12) contractual officers were regularized by the PTA management on 10th November, 2017 and 18th October, 2018 respectively. The officers were further promoted as Director General (SEG-I), Directors (EG-IV) and Deputy Director (EG-III) on the recommendations of Departmental Promotion Committee w.e.f. 29th July, 2020. Audit held these promotions irregular as the prescribed period after regularization was not complete in these cases. This resulted in overpayment of Rs 9,667,911 on account of salary & perks. Audit further observed that an officer was appointed as AD (HR) on 22nd August, 2005 giving false statement of possessing MBA (HRM) qualification which was pointed out by audit during 2008-09. The officer completed her degree programme on 9th May, 2007 as per Bahria University report. However, the officer was promoted as Deputy Director (HR) in 2009 and as Director w.e.f. 29th July, 2020 based on MBA (HRM) as additional qualification. Audit was of the view that the promotion of the officer was unjustified as the matter of appointment was subjudice in Islamabad High Court. Therefore, payment of pay & allowances/perks of Rs 18,416,348 was held un-justified.

Audit pointed this out to the management and PAO in November 2021. It was replied that there was no distinction in terms and conditions of the contractual and regular employees with reference to pay & allowances,

perks, discipline, duties & responsibilities except the clause relating to the termination of employment as per PTA Employees Service Regulations 2008. It was further replied that the officer was promoted in accordance with the relevant provision of PTA Employees Service Regulations 2008 and upon recommendations of the Departmental Promotion Committee (DPC).

The replies were not acceptable as the officers were promoted before completion of three/four year length of service after regularization. Further, the FFI conducted by the Cabinet Division on unjustified appointment of AD HR, pointed out by audit during 2008-09, concluded that since the matter was subjudice therefore, it may be pended till final decision of the court. Hence, the promotion of the officer before the decision regarding appointment of the officer by the court was held unjustified.

DAC in its meeting held on 3rd January, 2022 directed PTA to refer the case to Establishment Division and Law Division for advice. DAC further directed PTA to furnish the progress report on the court case to Audit and Cabinet Division, within one month and the matter for granting five marks of extra qualification at the time of her promotion as Director may also be looked into.

Audit recommends that matter may be investigated to fix the responsibility for unauthorized promotions before completion of prescribed period and court decision.

(DP No. 220 & 222)

1.5.5 Unjustified payment of Proficiency, Eid and House Rent Allowance to Authority Members – Rs 5.820 million

Para 1(1.1) (1.1.3 & 1.1.5) of PTA procedure for sanctioning, drawing & disbursing of funds states that they would not pass any order which will be directly or indirectly linked with their benefit and the amount of expenditure should be so regulated that it is not, on the whole, a source of

profit to the recipients. Moreover, as per Finance Division OM dated 14th July, 2017 regarding revision of Management Position Scales, maximum entitlement of house rent for MP-I scale is Rs 142,000.

During audit of PTA for the year 2020-21, it was observed that an amount of Rs 5,109,984 was paid to Chairman and Members of PTA Authority on account of Proficiency and Eid Allowances during 2020-21. Further, overpayment of house rent allowance of Rs 710,220 was also made to Chairman PTA at enhanced rate of Rs 260,307 per month instead of Rs 142,000 w.e.f. 01st January, 2021. Therefore, the payment was held un-justified as the Chairman & Members of the Authority were not PTA employees and appointed by the Federal Government in MP Scales. The detail is as under:

Sr. No.	PDP No.	Description	Amount (Rs)
1	246-22	Payment of Proficiency Allowance	2,980,824
2	247-22	Payment of Eid Allowance	2,129,160
3	250-22	Over-payment of House Rent Allowance	710,220
Total			5,820,204

Audit pointed this out to the management and PAO in November 2021. It was replied that the Members & Chairman of the Authority were drawing salary, allowances and fringe benefits in accordance with the provisions of section 3(7) of Pakistan Telecommunication (Re-organization) Act, 2006, Finance Divisions letter dated 7th September, 2009 and clarification of Ministry of Law & Justice dated 3rd August, 2021.

The reply was not acceptable as the Members & Chairman of the authority were appointed by the Federal Government and entitled to draw pay, allowances and privileges of MP-II and MP-I scales respectively.

DAC in its meeting held on 3rd January, 2022 pended the Para and decided to place it before PAC for appropriate directives.

Audit recommends that responsibility for making unjustified payments be fixed besides recovery of the amount under intimation to audit.

(DP Nos. 246,247 & 250)

CABINET DIVISION

CHAPTER-2

FREQUENCY ALLOCATION BOARD (FAB)

Chapter 2

Frequency Allocation Board (FAB)

(Cabinet Division)

2.1 Introduction

A) Frequency Allocation Board (FAB) established on 1st January, 1996 under the Pakistan Telecommunication (Reorganization) Act, 1996, is under the administrative control of the Cabinet Division and funded by PTA. Section 42 of Telecommunication (Reorganization) Act 1996 provides its accounts to be audited by the Auditor General of Pakistan. FAB is managed by a Board appointed by the Government of Pakistan and follows the applicable recommendations of the International Telecommunication Union. Its main functions are to:

- allocate and assign frequency spectrum to the public sector providers of telecommunication services and systems, radio and television broadcasting operations, public and private wireless operators, and others.
- monitor the sphere and determine illegal users of frequencies and report to PTA for action under the Act.

B) Comments on Budget and Accounts

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

Table-I Audit Profile of FAB**(Rs in million)**

Sr No	Description	Total Nos	Audited	Expenditure audited FY 2020-21	Revenue / Receipts audited FY 2020-21
1	Formations	01	01	834.584	-
2	<ul style="list-style-type: none"> • Assignment Accounts • SDAs 	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	01	01	834.584	-
4	Foreign Aided Projects (FAP)	-	-	-	-

2.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 483.755 million were raised in this report during the current audit of FAB. This whole amount comprises different irregularities as pointed out by audit. Summary of the audit observations classified by nature is as under:

Table-II Overview of Audit Observations**(Rs in million)**

Sr No	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities (A+B+C)	483.755
A	HR/Employees related irregularities	459.628
B	Procurement related irregularities	24.127
C	Management of Accounts with Commercial Banks	-
4	Value for money and service delivery issues	-
5	Others	-
Total:		483.755

2.3 Status of Compliance with PAC Directives

Sr No	FAB			Compliance		%age
	Audit Year	Total Paras	Total Directives	Received	Not Received	
1	1997-98	2	2	2	0	100
2	1998-99	5	5	5	0	100
3	1999-00	4	4	4	0	100
4	2000-01	3	3	2	1	67
5	2002-03	8	8	8	0	100
6	2003-04	5	5	4	1	80
7	2004-05	5	5	5	0	100
8	2005-06	10	10	10	0	100
9	2006-07	2	2	2	0	100
10	2007-08	3	3	2	1	67
11	2008-09	6	6	6	0	100
12	2009-10	7	7	7	0	100
13	2010-11	6	6	5	1	83
14	2013-14	11	11	10	1	91
15	2014-15	9	6	6	0	100
16	2015-16	5	4	3	1	75
17	2016-17	5	4	4	0	100
18	2017-18	11	6	6	0	100

AUDIT PARAS

2.4 Non-production of Record

2.4.1 Non-production of record

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

During audit of FAB for the year 2020-21, it was observed that the management did not provide the record relating to thematic audit titled “Regulatory Functions in Telecommunication Sector” despite written and several verbal requests.

Audit pointed this out to the management and PAO during November and December, 2021. It was replied that after the opinion of the Attorney General of Pakistan dated 16-09-2021 the nature of Audit is limited to the “accounts” only and the audit of Regulatory Functions was beyond the scope of the Auditor General of Pakistan. However, FAB provided all records relating to “accounts” along with all necessary explanations to conduct audit for the financial year 2020-21.

The reply was not acceptable as the powers of the Auditor-General of Pakistan regarding audit of regulatory functions had already been decided by the PAC in its meetings.

DAC in its meeting held on 3rd January, 2020 pended the para.

Audit recommends that the record as and when demanded by the Audit be provided for scrutiny besides taking action against the persons responsible for non provision of record under section 14(3) of the AGP ordinance 2001.

(DP No.214)

2.5 Irregularities

A. HR/Employees related irregularities

2.5.1 Unauthorized payment of pay & allowances - Rs 456.753 million

According to the Finance Division OM No.F.1(38)/Imp-II/88 dated 11th July, 1988, No.F.1(1)/ Imp/94 dated 26th June 1999, No.F.4(2)/R-4-99 dated 13th January 2000 and No.F-4(8)R-4/2004 dated 19th July, 2004, the financial matters including revision of pay & allowances etc. cannot be decided without approval of the Finance Division. Furthermore, section 42 (3) of Pakistan Telecommunication (Re-organization) Act, 1996 (amended 2006) states that the Board shall make regulations, with the approval of the Federal Government, governing the matter in which the Board may function and exercise its powers.

During audit of FAB for the year 2020-21, it was observed that the management had its approved pay package in Employees Service Regulations 2014 duly approved by the Finance Division. But FAB adopted the pay package of PTA and continued to pay salaries and other financial perks to its employees without approval of Finance Division. This resulted in unauthorized payment of pay & allowances of Rs 456,753,359 during the year 2020-21.

Audit pointed this out to the management and PAO during November and December, 2021. It was replied that in exercise of the powers conferred by section 43 (7) of the Pakistan Telecommunication (Re-organization) Act, 1996, read with section 42 (3) thereof, the FAB Employees (Service) Regulations, 2014 were made with the approval of

Federal Government. Moreover, FAB is directly funded by PTA under section 42 (2) of the Pakistan Telecommunication (Re-Organization) Act, 1996. FAB management extended/implemented pay & allowances to its employees in line with PTA as provided in FAB's Employees (Service) Regulations, 2014.

The reply was not acceptable as FAB had its pay packages approved by Federal Government. PTA was considered competent to approve pay package for its employees as per clarification of section 10(3) of the Pakistan Telecommunication (Re-organization) Act, 1996. Whereas, FAB had no such powers and was supposed to get its pay package approved by Federal Government.

DAC in its meeting held on 3rd January, 2022 upheld its earlier decision dated 13th August 2021 and directed Cabinet Division to further probe the issue with reference to sections 42(3) and 43(7) of Pakistan Telecommunication (Re-organization) Act, 1996. DAC further directed to provide the FFI report of the Cabinet Division on the issue to Audit.

Audit recommends identifying the persons held responsible for payment of pay & allowances without approval of the Federal Government and copy of the FFI report of the Cabinet Division may also be shared with audit.

(DP No. 209)

2.5.2 Un-lawful appointment and irregular payment of Pay & Allowances - Rs 2.875 million

According to Sl. No. 28 of Esta Code, “under the government servants (conduct) Rules, 1964, no Government servant is allowed to engage in any trade or undertake any employment or work, other than his official duties, except with the previous sanction of the Government”.

During audit of FAB for the year 2020-21, it was observed that the management hired the services of a person as consultant (civil works) with a remuneration of Rs 115,000 per month who was already working as

Executive Engineer (BPS-18) in AJK Council. This resulted in unlawful payment of pay & allowances of Rs 2,875,000 during 2019-2021.

The matter was reported to management and PAO during November and December, 2021. It was replied that Mr. Khurram Shahzad was appointed on part time basis as Civil works consultant to supervise the work of construction of Monitoring Station buildings at Khaira Gali and Gilgit Baltistan and his appointment was made after the fulfilment of all codal formalities. However, contract appointment of Mr. Khurram Shahzad was already completed on 31st January, 2021.

The reply was not acceptable as no reply was given regarding appointment of a person who was already in government service and working as Executive Engineer (BPS-18) in AJK Council.

DAC in its meeting held on 3rd January, 2022 directed FAB to recover the payments made to the person and apprise his parent office for appropriate action.

Audit recommends that matter may be investigated to fix the responsibility against those held responsible for un-authorized appointment besides recovery of amount involved.

(DP No. 213-22 & 01-21)

B. Procurement related irregularities

2.5.3 Irregular expenditure on construction of boundary wall - Rs 24.127 million

Regulation 82 (1) of FAB Employees (Service) Regulations, 2014 stipulates that a) a Development Working Party (DWP) shall be constituted and notified to consider and approve the self-financed projects; b) DWP shall be headed by the Executive Director and, among others, shall include representatives, not below the rank of Joint Secretary, each of the Planning and Development Division, Finance Division and the administrative Division; c) quorum of the DWP shall be incomplete without presence of

representatives of the Finance Division and the Planning and Development Division. Further, according to Para 5.6 and 5.7 of guidelines for project management at starting phase of any project the management should concentrate on ensuring timely preparation of PC-I including feasibility study.

During audit of FAB for the year 2020-21, it was observed that the management made a contract on 18th May, 2020 with M/s Amanat Hussain & Co (Pvt) Limited, Rawalpindi for construction of 7,977 feet boundary wall at Wani Monitoring Station” at a cost of Rs 21,636,176 with a completion period of six (06) months from the date of issuance of work order. Estimated construction cost of the boundary wall was Rs 15,105,859 on MES schedule rates. The management of FAB incurred an expenditure of Rs 24,126,935 during 2020-21 without preparation of PC-I and its approval from DWP subsequently. The expenditure was of capital nature but it was charged to repair of office buildings. Audit had also observed the following:

- i. Three bidders were technically qualified with certain scores. But correction fluid was used on the score of technically qualified bidder i.e. M/s Amanat Hussain & Co (Pvt) Ltd which made the whole process dubious.
- ii. In terms of clause 17.1 of tender document, the work order was issued on 9th March, 2020 which was required to be completed on 9th October, 2020. Whereas the work was completed on 15th December, 2020 as per completion certificate with a delay of 9.42 weeks (66 days). LD amounting to Rs 1,136,379 ($9.42 \times 0.5\% \times 24,126,935$) was not deducted from the bill of the vendor as required in terms of clause 17.2 of tender document.
- iii. Seven (07) out of sixteen (16) items of approved BoQ were enhanced, hence, payment of Rs 2,838,190 was made to vendor in excess of approved BoQ.

- iv. As per item No. 1 of BoQ, the material retrieved would be the property of FAB. There was no record available for material retrieved from the site and its disposal.

Audit pointed this out to the management and PAO during November and December, 2021. It was replied that construction of boundary wall did not fall under the definition of “project”. So there was no need for preparation of PC-I and its approval from DWP. The expenditure was incurred only for maintenance of an asset. There was no bar to accept bid if its quoted amount went beyond the estimated amount of the project prepared by the department. The fluid on marks of M/s Amanat Hussain & Company on note sheet was used to make scores obtained visible. Against point number (iv) of audit observation it was replied that work order was issued on 19th May, 2020 and there was no delay in completion of work. Additional payment was made to the contractor for additional work done. Moreover, the material retrieved from the site area was in safe custody and in the possession of FAB.

The reply was not acceptable as any expenditure that would cause any addition to the existing asset or the potential benefit spread over more than one accounting year, would be considered as “Capital Expenditure”. Further, Rs 24.127 million paid on account of construction of boundary wall was more than total CAPEX budget of Rs 13.573 million of FAB. The work was awarded at increased rate of 43% of estimated cost which was further increased to 60% at the time of final payment. Further, the work was completed on 15th December, 2020 with a delay of 66 days for which the LD was not imposed.

DAC in its meeting held on 3rd January, 2022 directed FAB to get the relevant record as stated in the reply verified from Audit.

Audit recommends that fact-finding inquiry may be conducted keeping in view the points raised and outcomes of the same be shared with audit.

(DP No. 207)

2.6 Value for money and service delivery issues

2.6.1 Delay in construction of FAB Headquarters building

Clause 2.5 of special conditions of the contract requires that the work of design of FAB Headquarters building will be completed within six months from the date of award of work.

During audit of FAB for the year 2020-21, it was observed that a contract was signed by the management with M/s Progressive Consultants (Pvt) Limited on 19th November, 2015 for preparation of design and PC-I of FAB Headquarters building at a total cost of Rs 16,843,200 with a completion period of six (06) months. However, the consultant submitted PC-I in April, 2021 after a lapse of six (06) years by ignoring the time and cost overrun. The designing phase was required to be completed within 180 days but the consultant failed to complete the work even after a lapse of six years. The management incurred an expenditure of Rs 10,426,000 on the account of FAB headquarter during last five years including expenditure of Rs 2,501,022 during FY 2020-21 but no LD was imposed on the consultant.

Audit pointed this out to the management and PAO during November and December, 2021. It was replied that construction of FAB HQs Building was a gigantic task in which investment/expenditure worth hundreds of millions of rupees were involved and many other formalities including compliance to Building Code and by-laws of CDA to avoid any litigation. Further, PC-I of the project had already been prepared and was now under active consideration of management for final evaluation and approval of the FAB's Development Working Party. Moreover, Capital Development Authority had already accorded approval of the building plan in June, 2021.

The reply was not acceptable as the PC-I was submitted by the consultant with a delay of 6 years due to which FAB had to bear loss in

shape of increase in the cost of project and building rent being paid by the FAB.

DAC in its meeting held on 3rd January, 2022 directed FAB to identify the persons responsible for submission of PC-I with a delay of 6 years and carrying out work without completing the authorization requirements.

Audit recommends that fact finding inquiry may be conducted to fix responsibility for delay in completion of the project.

(DP No.208)

MINISTRY OF DEFENCE PRODUCTION

CHAPTER-3

**NATIONAL RADIO &
TELECOMMUNICATION CORPORATION
(NRTC)**

Chapter 3

National Radio & Telecommunication Corporation (NRTC)

(MoDP)

3.1 Introduction

A) The National Radio & Telecommunication Corporation (NRTC) Private Limited was established on 16th February, 1966. The Corporation is registered under the Companies Ordinance, 1984, as a Private Limited Company. NRTC is under the administrative control of the Ministry of Defence Production. Its accounts are audited by the Auditor-General of Pakistan.

The main objectives of the Corporation include manufacturing and assembling of all kinds of radio and wireless sets for Defence Services, Jamming Solutions, production of battery eliminators and distribution point boxes for PTCL and NTC. The Corporation is managed by a Board of Directors headed by Secretary, Ministry of Defence Production.

B) Comments on Budget and Accounts

3.1.1 As per statement of profit or loss account for the year ended June 30, 2021, profit after tax was Rs 863.834 million for financial year 2020-21 as compared to Rs 1,167.290 million for financial year 2019-20 which shows 35% decrease in profit. It indicates weak performance on the part of the company.

3.1.2 As per statement of financial position as of June 30, 2021, stock in trade was Rs 4,301.905 million for financial year 2020-21 as compared to Rs 2,964.115 million for financial year 2019-20 showing a 45% increase in stock. Increase in stock caused an addition in inventory management costs.

3.1.3 As per note 40.1 of the financial statements, annual production capacity of SDR was 3,000 units, but only 222 units were produced during the financial year 2020-21. This resulted in sub-optimal utilization of resources.

3.1.4 As per note 29 of the financial statements, legal and professional charges were Rs 11.806 million during the financial year 2020-21 as compared to Rs 2.624 million during the financial year 2019-20 resulting 350 % increase in the expenses.

Table-I Audit Profile of National Radio & Telecommunication Corporation (NRTC)

(Rs in million)

Sr No	Description	Total Nos.	Audited	Expenditure audited FY 2020-21	Revenue / Receipts audited FY 2020-21
1	Formations	01	01	11,058.977	10,371.763
2	<ul style="list-style-type: none"> • Assignment Accounts • SDAs 	-	-	-	-
3	Authorities / Autonomous Bodies etc under the PAO	01	01	11,058.977	10,371.763
4	Foreign Aided Projects (FAP)	-	-	-	-

3.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 1,997.725 million were raised in this report during the current audit of M/s NRTC. This amount also includes recoveries of Rs 1,952.389 million as pointed out by audit. Summary of the audit observations classified by nature is as under:

Table-II Overview of Audit Observations

(Rs in million)

Sr No	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and Misappropriation	-
3	Irregularities (A+B+C)	19.107
A	HR/Employees related irregularities	-
B	Procurement related irregularities	19.107
C	Management of Accounts with Commercial Banks	-
4	Value for money and service delivery issues	26.229
5	Others	1,952.389
	Total:	1,997.725

3.3 Status of Compliance with PAC Directives

Sr No	Audit Year	Total Paras	Total Directives	Compliance		%age
				Received	Not received	
1	1988-89	03	03	00	03	00
2	1990-91	10	10	10	00	100
3	1992-93	10	10	10	00	100
4	1994-95	No audit para was printed in Audit Report				
5	1996-97	10	02	01	01	50
6	1997-98	10	10	10	00	100
7	1999-00	09	09	09	00	100
8	2000-01	12	12	12	00	100
9	2001-02	08	08	08	00	100
10	2003-04	09	09	07	02	60
11	2004-05	13	13	13	00	100
12	2005-06	08	08	08	00	100
13	2006-07	05	05	03	02	75
14	2007-08	16	16	12	00	100
15	2008-09	04	04	03	01	75
16	2009-10	04	04	04	00	100
17	2012-13	20	18	17	01	94
18	2013-14	05	05	05	00	100
19	2016-17	5	5	02	03	40

AUDIT PARAS

3.4 Irregularities

A. Procurement related irregularities

3.4.1 Irregular procurement without observing Public Procurement Rules - Rs 19.108 million

According to Rule 12(1) of Public Procurement Rules 2004, procurements over five hundred thousand rupees and up to the limit of three million rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency.

During audit of NRTC for the year 2020-21, it was observed that NRTC management procured test equipment from M/s Rohde & Schwarz GmbH & Co, KG Germany & M/s EMC Partner AG Switzerland on a single quotation basis instead of open tenders. An amount of Rs 19,108,010 was paid to the suppliers during 2020-21. The expenditure was held irregular as procurement was made without tendering in violation of Public Procurement Rules, 2004. The detail is as under:

Sr No	PDP No	Name of supplier	Subject	Amount (Rs)
1	185-22	M/s Rohde & Schwarz GmbH & Co, KG Germany	Irregular procurement of spectrum analyzer without observing PPRs - Rs 10.678 million (55,000 Euros)	10,678,250
2	187-22		Irregular procurement of R&S RTO Digital Oscilloscope and HMF Function Generator - Rs 5.581 million (Euros 28,750)	5,581,813
3	191-22	M/s EMC Partner AG, Switzerland	Irregular purchase of Test-Equipment 30KV CS118 - Rs 2.848 million (CHF 15,765)	2,847,947
Total:				19,108,010

Audit pointed this out to the management and PAO in October & December 2021. It was replied that test equipment was procured from the

original equipment manufacturers i.e. Rohde & Schwarz, Germany & M/s. EMC AG Switzerland is covered in Rule 42 (c), (ii) & (iii) of the Public Procurement Rules 2004.

The reply was not acceptable as there were more than one manufacturers of these equipments available on the website and therefore, tendering process was required to be followed.

DAC in its meeting held on 14th December, 2021 directed the NRTC management to get the expenditure regularized by obtaining ex-post-facto approval from NRTC Board of Directors and get it verified from Audit.

Audit recommends identification of persons responsible for violating Public Procurement Rules.

(DP No.185,187&191)

3.5 Value for money and service delivery issues

3.5.1 Loss to NRTC due to deduction of LD charges – Rs 26.229 million

According to clause 17 of the contract agreement dated 30th June 2016, the liquidity damages upto 2% per month of the value of late delivered stores may be imposed on the supplier if the stores are supplied after the expiry of the delivery date without any valid reasons. Total value of LD shall not exceed 10 % of the contract value of particular store.

During audit of NRTC for the year 2020-21, it was observed that the management made two contract agreements amounting to Rs 300,897,011 with M/s Directorate of Procurement (Navy) & (Air Force) for provision/supply and installation of Perimeter Security and Surveillance System and supply of IFF Crypto Module M-6P for ground platforms. NRTC failed to deliver the stores in time due to which it had to suffer a loss of Rs 26,229,434 in the shape of LD charges. It was also observed that the NRTC supplied additional store items to Directorate of Procurement

(Navy) worth Rs 973,126 but its payment was not received. The detail is as under:

Sr No	PDP No	Name of contractor	Subject	Amount of LD Charges imposed (Rs)
1	178-22	Directorate of Procurement (Navy) Rawalpindi	Loss to NRTC due to deduction of LD charges – Rs 22,707,453 and non-receipt of payment against supply of additional stores Rs 973,126	22,707,453
2	182-22	Directorate of Procurement (Air Force)	Ill-planning causing loss due to deduction of LD charges – Rs 3,521,981	3,521,981
Total:				26,229,434

Audit pointed this out to the management and PAO in October & December 2021. It was replied against Sr. No.1 that delay was on the part of purchaser and case for extension in delivery period without imposition of LD was in process. It was also replied against Sr. No. 2 that delivery period had been extended without imposition of penalty and bill had been issued for refund of amount.

The reply was not acceptable as NRTC failed to deliver the requisite stores within the stipulated period. Further, additional items worth Rs 973,126 were also supplied and payment was not received till finalization of Audit Report.

DAC in its meeting held on 14th December, 2021 directed the NRTC management to recover the amount after getting waiver/recovery of LD charges from concerned agencies along-with pending amount on account of additional stores and get it verified from Audit.

Audit recommends that the persons held responsible for delayed delivery of stores be identified besides recovery of amount involved.

(DP No.178 & 182)

3.6 Others

3.6.1 Non-recovery against delivered Stores - Rs 1,890.667 million

According to clause 5.2 of contract agreement dated 23rd August, 2019, payment of 20% of the total contract value upon shipment of first consignment, 35% upon commissioning and site acceptance test of 1st system, 40% upon commissioning and site acceptance test of 2nd system and remaining 5% against deposit of performance bank guarantee will be made. Further, according to clause 3 of contract agreement dated 20th September, 2019, 30% advance payment was to be made to NRTC Haripur after signing of the contract, 60% of the value of the partial shipment and 10% after submission of commercial invoice and receipt certificate.

During the audit of NRTC for the year 2020-21, it was observed that the receivable management of the NRTC remained very poor. It failed to recover an amount of Rs 2,958,276,425 against delivered stores from Civil Works Organizations (CWO), NITB, Islamabad, Headquarters Frontier Corps (South) Turbat Baluchistan, Bahrain Defense Force, DG Procurement (Army) Rawalpindi and DG Department of State Services, Abuja Nigeria etc during 2020-21. Detail is given in **Annex-B** of this report.

Audit pointed this out to the management and PAO in October & December 2021. It was replied against Sr. No. 2, 5 & 8 of Annex-B that an amount of Rs 1,067,608,983 had been recovered and verified by audit. Therefore, amount of para was reduced to the tune of Rs 1,890,667,442.

DAC in its meeting held on 14th December, 2021 directed the NRTC management to recover the outstanding amount from concerned agencies and get it verified from Audit within three months.

Audit recommends that the remaining balance may be recovered and got verified from audit. It is also recommended that the recovery of

outstanding dues may be ensured as per contract clauses to keep the company out of any financial problems.

(DP No.179,180,181,183,184,186,188,190,192,193,194, & 203)

3.6.2 Un-justified deduction of Provincial sales tax on services – Rs 7.137 million

According to the Sixth Schedule of Sales Tax Act 1990 and Principles of Application and Interpretation mentioned in the KP Finance Act 2013, solar solution is exempt from applicability of tax in federal and on services as well.

During the audit of NRTC for the year 2020-21, it was observed that the management signed a contract with Pakhtunkhwa Energy Development Organization (PEDO) Peshawar for Solarization of Schools and health Facilities in KPK. It was observed that an amount of Rs 324,044,683 was paid by PEDO against issued stores after deduction of Rs 7,137,290 as sales tax on services. Audit considered the deduction of sales tax on services and stores unjustified. The management of NRTC failed to raise the issue with the concerned authorities resulting in receipt of less amount than due.

The matter was reported to management and PAO in December 2020. It was replied that the matter for refund of deducted tax was under process with the concerned agency.

DAC in its meeting held on 14th December, 2021 directed the management to recover the un-justified deducted amount of provincial sales tax from concerned agency and get it verified from Audit within six months.

Audit recommends that un-justified deducted amount of provincial sales tax be recovered and get it verified from audit.

(DP No.196)

3.6.3 Non-recovery of income tax refund claim from FBR – Rs 54.585 million

According to section 170(1) (3) (c) 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 of Income Tax for a refund of the excess and that where the Commissioner is satisfied that tax has been overpaid, the FBR shall refund the remainder, if any, to the taxpayer.

During the audit of NRTC for the year 2020-21, it was observed that the management failed to get the refund claim of Rs 54,585,109 pertaining to the financial year 2019-20 from FBR.

The matter was reported to management and PAO during November & December 2021. It was replied that the case for refund of income tax had been taken up with FBR, otherwise it would be adjusted in the Annual Tax Return for the year 2021.

The reply was not acceptable as the NRTC had not been successful in getting refund claims of previous years processed so far.

DAC in its meeting held on 14th December, 2021 directed the management to get the refund claim from FBR and get it verified from Audit within three months. It was also directed that tax management in the organization may also be improved.

Audit recommends that vigorous efforts be made for early refund of claim from FBR under report to audit.

(DP No 198)

**MINISTRY OF INFORMATION
TECHNOLOGY &
TELECOMMUNICATION**

CHAPTER-4

**ELECTRONIC CERTIFICATION
ACCREDITATION COUNCIL (ECAC)**

Chapter 4

(Electronic Certification Accreditation Council (ECAC) (MoITT)

4.1 Introduction

A) The Electronic Transactions Ordinance (ETO) was promulgated in 2002. Under this Ordinance, Electronic Certification Accreditation Council (ECAC) was established and first notification of ECAC was issued on 18th September, 2004 but council remained dysfunctional from 2007-2015. It comprises five members, out of which four members shall be from private sector and one member from the public sector designated as Chairman of ECAC.

After a gap of few years, realizing the importance of e-commerce, the Federal Government revived the Council in April 2015. ETO provides a legal framework to recognize and facilitate documents, records, information, communications, and transactions in the electronic form and to provide the accreditation certification service provider. With the development of e-commerce, regulatory laws have been made. The paper-based concept of identification, declaration and proof is carried through the use of digital signatures in an electronic environment based on Public Key Cryptography.

According to section 20 of ETO, 2002 the funds of the Certification Council shall comprise grants from the Federal Government; fee for grant and renewal of accreditation certificate; and fee, not exceeding ten rupees for every certificate deposited in the repository; and fines. Further, as per Section 21 of ETO 2002, the following are the main functions of the Council:

- Grant and renew accreditation certificates to certification service providers, their cryptography services and security procedures.
- Establish and manage the repository.

- Carry out research and studies in relation to cryptography services.
- Recognize or accredit foreign certification service providers.
- Encourage uniformity of standards and practices.
- Give advice in relation to any matter covered under this ETO 2002.

B) Comments on budget and Accounts

Electronic Certification Accreditation Council (ECAC) management did not provide the annual audited accounts till finalization of the Audit Report. Hence, no comments on accounts could be offered.

Table-I Audit Profile of ECAC

(Rs in million)

Sr. No.	Description	Total Nos	Audited	Expenditure audited FY 2020-21	Revenue / Receipts audited FY 2020-21
1	Formations	01	01	197.919	1.131
2	<ul style="list-style-type: none"> • Assignment Accounts • SDAs • ETC 	-	-	-	-
3	Authorities / Autonomous Bodies etc under the PAO	01	01	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

4.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 718.421 million were raised in this report during the current audit of Telecommunication Sector. Summary of the audit observations classified by nature is as under:

Table-II Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount (Rs)
1	Non production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities (A+B+C)	171.586
A	HR/Employees related irregularities	
B	Procurement related irregularities	171.586
C	Management of Accounts with Commercial Banks	-
4	Value for money and service delivery issues	
5	Others	546.835
	Total:	718.421

4.3 Status of Compliance with PAC Directives

No PAC meeting has so far been held on the audit paras of ECAC.

AUDIT PARAS

4.4 Irregularities

A. Procurement related irregularities

4.4.1 Unjustified withdrawal of money from assignment account – Rs 171.586 million

According to para 2 (iii) of revised procedure for operation of assignment account duly circulated by the Controller General of Accounts vide letter dated 16th October 2018, the officers holding assignment accounts will ensure that no cheque is drawn on assignment accounts unless it is required for immediate disbursement to the goods/services provider. Cheque(s) will not be drawn for deposit into chest or any bank account maintained by the entity. Para (iv) further stipulates that AGPR will not endorse any cheque, under any circumstances, which are drawn in the name of project authorities or drawer/payer for lump-sum transfer of funds from Federal Consolidated Fund/Central Account.

During audit of ECAC for the year 2020-21, it was observed that the management withdrew an amount of Rs 171,585,614 from the assignment account and paid to NTC for establishment of certification authority with Public Key Infrastructure (PKI) and Repository. However, NTC did not start any work on the said project and amount was lying idle. Audit was of the view that withdrawal of money was unjustified and against the provisions of assignment accounts procedure.

Audit pointed this out to the management and PAO during October 2021. It was replied that considering unique nature of infrastructure, shortage of funds and inadequate human resource/technical expertise, therefore, Council decided to procure PKI servers/software licenses through NTC on pre-deposit basis in its meeting held on 6th April 2018. Further, in compliance with DAC directives on a similar para for the F.Y 2018-19, MoITT had constituted a fact-finding committee on the subject

matter vide letter 3rd December 2020. Inquiry Committee concluded that “No irregularity found on part of ECAC in disbursement of funds as funds paid to NTC were not part of PSDP so the procedures of planning commission do not apply.”

The reply was not acceptable as the amount was withdrawn in violation of laid down procedure of assignment account. As regards inquiry, the Chairman of the Committee was CTO of NTC who was senior member of execution agency/team of the PKI Project, hence, there was conflict of interest in conducting the fact-finding inquiry. Further, fact-finding inquiry Committee recommended in its report for completion of the project within six months (up to 17th July, 2021) but the project was not completed up till now.

DAC in its meeting held on 21st December 2021 directed to re-inquire the matter at Ministry level.

Audit recommends that matter may be investigated and fix responsibility for withdrawal of money in violation of the instructions of assignment account.

(DP No.74)

4.5 Others

4.5.1 Irregular award of project – Rs 546.835 million

According to Para 5.6 and 5.7 of guidelines for project management at starting phase of any project the management should concentrate on ensuring timely preparation of PC-I including feasibility study, if necessary and finalization of financial arrangements including foreign aid. Several actions are usually required to get the project take off i.e. approval of the project; issuance of administrative approval, establishment of organizational/institutional arrangements for implementing the project; appointment of Project Director, key staff and consultants; completion of local funding; and preparation of cash/work plan and tender documents. Para-2 (ii)(c) of Assan Assignment Account Procedure, 2020 further states

that there shall be a separate assignment account for every development project, sub-account(s) may be allowed on need basis.

During audit of ECAC for the year 2020-21, it was observed that the management designed a project titled “Establishment of Certification Authority with Public Key Infrastructure (PKI) and Repository”. The project was awarded to NTC in March 2018 on pre-deposit basis instead of preparation/approval of PC-I. ECAC accepted the final provisional capital cost bill of Rs 547 million which was 1285% higher than original bill but after lapse of 44 months NTC could not start the work on PKI project. Further, the management of ECAC did not open separate assignment account for the project in violation of the above.

Audit pointed this out to the management and PAO during October 2021. It was replied that the Council decided to procure the servers/software for PKI/Repository to be housed in NTC National Data Centre on pre-deposit basis. An advance amount of Rs 372 million was paid to NTC from the operational budget as per NTC pre-deposit policy. It was further replied that the funds were not part of PSDP, the opening of separate assignment account does not apply.

The reply was not acceptable as the project was awarded without preparation of PC-I. The separate assignment account was required to be opened being Government Funds but the same was not opened.

DAC in its meeting held on 21st December, 2021 directed to re-inquire the matter at Ministry level.

Audit recommends that matter may be investigated for fixing of responsibility for violation of rules.

(DP No.77&78)

**MINISTRY OF INFORMATION
TECHNOLOGY &
TELECOMMUNICATION**

CHAPTER-5

IGNITE NATIONAL TECHNOLOGY FUND

Chapter 5

Ignite National Technology Fund (MoITT)

5.1 Introduction

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

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

The Fund shall be utilized exclusively for prescribed Research and Development activities in the field related to Information and Communication Technology and other expenditure incurred by the Federal Government in managing Fund.

Federal Government in pursuance of sub-section (2) of section 57 of Pakistan Telecommunication (Re-organization) (Amendment) Act, 2006 approved the Research and Development Fund Rules, 2006. In terms of Rule (4) *ibid*, MoITT established a non-profit company limited by guarantee for implementation of research and development projects in the information and communication technology sectors. The company is managed by a Board of Directors headed by Minister of IT as its Chairperson to run the affairs of the company.

B) Comments on budget and Accounts

- 5.1.1 As per para 4 of covering letter of External Auditor's Report, the interest on funds (received by the Company from MoITT and kept in interest-bearing account) was considered to be exempted from tax. The tax was withheld by the bank during the financial year 2020-21 on interest income credited to the Company as it did not obtain exemption certificate from tax authorities. It caused understatement of revenue of the company.
- 5.1.2 The Statement of Financial Position as of 30th June, 2021, showed current assets as Rs 661.046 million and current liabilities as Rs 674.806 million resulting in a current ratio of 0.98:01. It shows a weak liquidity position of the Company.
- 5.1.3 As per note 16 of the financial statements, expenditure on technical research and development projects was Rs 58.511 million during financial year 2020-21 as compared to Rs 226.021 million during financial year 2019-20 showing a decline of 286%.
- 5.1.4 As per note 20 of the financial statements, Executives of the Company received Honorarium amounting to Rs 5.798 million in addition to Performance bonus amounting to Rs 11.509 million during financial year 2020-21.
- 5.1.5 As per note 13 of the financial statements, Rs 13.465 million was payable to gratuity fund as on June 30, 2021. The company did not transfer the amount to that account.

Table-I Audit Profile of IGNITE**(Rs in million)**

Sr No	Description	Total Nos	Audited	Expenditure audited FY 2020-21	Revenue / Receipts audited FY 2020-21
1	Formations	01	01	854.50	-
2	<ul style="list-style-type: none"> • Assignment Accounts • SDAs 	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	01	01	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

5.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 752.785 million were raised in this report during the current audit of IGNITE. This amount also includes recoveries of Rs 97.837 as pointed out by audit. Summary of the audit observations classified by nature is as under:

Table-II Overview of Audit Observations**(Rs in million)**

Sr.No	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities (A+B+C)	269.092
A	HR/Employees related irregularities	20.719
B	Procurement related irregularities	237.516
C	Management of Accounts with Commercial Banks	10.857
4	Value for money and service delivery issues	157.62
5	Others	326.073
Total:		725.785

5.3 Status of Compliance with PAC Directives

No PAC meeting has been held to date on the audit paras of IGNITE.

AUDIT PARAS

5.3 Irregularities

A. HR/Employees related irregularities

5.3.1 Irregular expenditure from Company budget – Rs 20.719 million

According to Rule 4 (3) of Corporate Governance Rules 2013, the chief executive is responsible for the management of the Public Sector Company and its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Act and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Ignite Company for the year 2020-21, it was observed that seven (07) employees of Ignite National Technology Fund were serving in MoITT but their pay and allowances, expenditure on foreign tours, and payment of bonuses were made from the Ignite budget instead of budget of the MoITT. Further, the expenditure on printing of annual report of MoITT was also paid from the company budget. Therefore, payment of Rs 20,719,063 made on this account was held irregular. The detail is as under:

Item No	Description	Amount (Rs)
14	Irregular payment of pay & allowance, international travel, bonus	20,579,131
35	Irregular expenditure on printing of annual report	139,932
	Total	20,719,063

Audit pointed this out to the management and PAO during November and December 2021. It was replied that Ignite employees were

posted at MoITT with the approval of Board of Directors. Therefore, salaries disbursed to these employees were in line with the BoD approval.

The reply was not acceptable as the Board granted approval for posting at MoITT but it did not give approval for payment of pay and allowances, TA, and payment of bonus from Ignite budget.

DAC in its meeting held on 21st December, 2021 directed the management to refer the case to Establishment Division for clarification.

Audit recommends that the expenditure incurred on pay and allowances of staff deployed in the Ministry be recovered from quarter concerned under report to audit.

(DP No. 274)

B Procurement related irregularities

5.3.2 Irregular payment of salaries - Rs 200.89 million

As per bidding documents the vendor was required to submit the human resource cost with breakup showing the number of staff to be deployed against the project, position of staff and salary per month to be paid to staff on account of regular/part-time and on call consultant etc.

During audit of Ignite Company for the year 2020-21, it was observed that M/s LMKT submitted financial proposal to establish and maintain national incubation centres at Karachi & Peshawar. The vendor submitted human resource cost in lump-sum instead of breakup showing the number, position and salaries paid to staff deployed against the project, in violation of bidding documents/PPRs. Therefore, expenditure of Rs 200,890,140 incurred under head salary reimbursed to M/s LMKT was held irregular. The detail is as under:

Name of NIC	Y0 (Rs)	Y1 (Rs)	Y2 (Rs)	Y3 (Rs)	Total (Rs)
Peshawar	5,319,200	30,793,508	33,038,963	35,508,963	104,660,340
Karachi	4,215,000	28,080,000	30,588,000	33,346,800	96,229,800
				Total	200,890,140

Audit pointed this out to the management and PAO during November and December 2021. It was replied that as per bidding documents (RFP) published by Ignite for provision of services to establish and manage national incubation centre at Peshawar & Karachi, there was no explicit requirement to provide per month project staff salaries. However, on the request of Ignite, LMKT submitted staff salaries details right after the start of NIC Karachi and Peshawar, the same was being followed.

The reply was not correct therefore not acceptable as section C4 of the bidding documents required the breakup of remuneration per activity.

DAC in its meeting held on 21st December, 2021 directed the management to obtain opinion from PPRA on the issue under intimation to Ministry and audit.

Audit recommends that responsibility may be fixed for violation of PPRA rules.

(DP No. 270)

5.3.3 Irregular payment on hiring of office accommodation without tender -Rs 36.626 million

According to Rule 12 (2) of Public Procurement Rules, 2004, all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

During audit of Ignite Company for the year 2020-21, it was observed that, Ignite National Technology Company signed an agreement without tendering with M/s Telecom Foundation for hiring of building (3rd floor) for office w.e.f. 01st November, 2020 for five years. An amount of Rs 25,751,040 (Rs 3,218,880 x 8 months) & Rs 1,515,813 was paid on account of rent and janitorial services respectively during 2020-21. The

total payment stands irregular being in violation of the PPRs and contract agreement which indicated that provision of janitorial services was the responsibility of M/s TF. Audit further observed that the covered area of 3rd floor (phase-I) under occupation of M/s Ignite was 9667 sq. ft. instead of 15238 sq. ft. which resulted in the excess covered area of 5571 sq. ft. mentioned in agreement. Resultantly, an overpayment of Rs 9,359,280 (Rs 210 x 5571 sq. ft. x 8 months) was also made during 2020-21.

Audit pointed this out to the management and PAO during November & December, 2021. It was replied that in accordance with government rules, the company may negotiate directly with state-owned enterprises or any other government body holding properties for corporate offices. Keeping in view, quotations were called from PTET, TF and Evacuee Trust. Comparison of three quotations with cost benefit analysis presented to the Board which approved 3rd floor of TF Complex to be rented. Further, Ignite clarified that carpeted area of 3rd floor was 9667 sq. feet whereas common area of 5661 sq. feet was also a part of 3rd floor making a total area of 15328 sq ft. Hence, no overpayment was made.

The reply was not acceptable as on one hand TF was not state owned organization and on the other hand PPRA rules did not allow acquiring space for office accommodation without tendering.

DAC in its meeting held on 21st December, 2021 directed the management to obtain clarification from PPRA on the issue. It was further directed that Ignite management may consult other tenants in the building regarding areas/space under their utilization and what amount of rent TF charging from them for the common area.

Audit recommends that matter may be investigated to fix responsibility against those held responsible for violation of PPRA rules besides recovery of overpayment on account of excess covered area not under the occupation of Ignite and janitorial services.

(DP No. 280)

C. Management of accounts with commercial banks

5.3.4 Non-closing of bank accounts having closing balance - Rs 10.857 million

In light of “Cash Management and Treasury Single Account Rules, 2020, being in force since 24th July, 2020, the Federal Government has ordered to close the bank Accounts in Commercial Banks by the Ministries, Division, Attached Departments, etc. and transfer balance to Central Account No 1 (Non-Food) maintained in the State Bank of Pakistan.

During audit of Ignite Company for the year 2020-21, it was observed that Ignite Technology Fund Company operated Bank Account No 4662812 in NBP, Holiday Inn Branch Islamabad in which balance of Rs 10,857,342 was available as on 30th June, 2021. The account was not closed and balance was also not transferred to State Bank of Pakistan in violation of the Government Instructions.

Audit pointed this out to the head of formation and management during November 2021. It was replied that the company opened its sub-assignment account w.e.f. 1st July, 2021 for all kinds of payments. However, due to non-finalization of SOPs for disbursement of funds and non-availability of deposit in the said sub-assignment account, FY 2021-22, the old account in NBP remained active to cater for the unforeseen expenditure.

The reply was not acceptable as the operating of bank account was clear violation of the government instructions.

DAC in its meeting held on 21st December, 2021 expressed displeasure and directed the management to fix responsibility on those at fault for drawl of funds from the bank account.

Audit recommends that responsibility may be fixed for utilization of funds and non-closure of account. Further, balance available in the

account may be transferred to Central Account No 1 immediately under report to audit.

(DP No. 288)

5.4 Value for money and service delivery issues

5.4.1 Concealment of facts resulted in waiving off Revenue - Rs 157.620 million

According to clause 3 (3.1.1) (i) of Funding agreement signed between M/s Lahore University of Management Sciences (LUMS) and M/s Ignite Company, M/s LUMS shall execute and implement the Project and shall perform and deliver all deliverables in accordance with the Project Portfolio with due care and without negligence.

During audit of Ignite Company for the year 2020-21, it was observed that, an agreement between M/s Ignite and M/s LUMS was signed to establish and maintain National Incubation Centre (NIC) at Lahore on 20th September, 2017. According to financial proposal submitted by M/s LUMS, the vendor would realize the revenue of Rs 41.186 million in Year-3 for self-sustainability of NIC to offset operating expenses which could not be achieved. Subsequently, M/s LUMS requested Ignite to waive off the revenue condition due to Covid-19. The matter was discussed in the 34th Finance and Audit Committee (FAC) meeting held on 14th June, 2021 which recommended the change request “No revenue contribution” be sent to BoD for approval due to force majeure event of Covid-19. BoD on the recommendation of the FAC approved the request of LUMS regarding elimination of revenue of Rs 157.62 million contributions for Year-3 to Year-5 from budget for NIC Lahore. Audit further observed that management of Ignite misguided the FAC/BoD members in this regard as revenue of Rs 20.605 million was credited in the NIC Lahore bank account as submitted in the Y3Q3 financial report (July to September 2020) to Ignite thus, facts were concealed from the FAC as well as BoD. Further BoD waived off the revenue of 3rd, 4th & 5th year whereas, vendor only requested for 3rd year waiver.

Audit pointed this out to the management and PAO during November & December 2021. It was replied that the revenue mentioned in the financial proposal was not part of the approved budget. As per financial proposal LUMS needs to generate revenue from 3rd year onwards. Revenue generated of Rs 2.30 million in year 3 reported in change request and same was presented to FAC in its 34th meeting and BoD in its 80th meeting held on 16th August, 2021.

The reply was not acceptable as revenue of Rs 20.605 million was raised and credited in the NIC bank account and this fact was not brought into the notice of FAC as well as BoD.

DAC in its meeting held on 21st December, 2021 directed the management that revenue generated Rs 20.605 million and waiver of revenue for 4th & 5th years be placed before Board of Directors for consideration.

Audit recommends that responsibility for concealment of facts may be fixed. Further, issue may be placed before the BoD for early decision in the light of audit observation.

(DP No. 261)

5.5 Others

5.5.1 Irregular capital expenditure incurred beyond the cut-off date - Rs 104.348 million

According to appendix C of funding agreements (milestones chart), the vendors were required to establish incubation centres within three months from the date of signing of agreement.

During audit of Ignite Company for the year 2020-21, it was observed that M/s Ignite hired the services of M/s LUMS and M/s LMKT to establish and maintain National Incubation Centres (NICs) at Quetta, Karachi and Peshawar. The capital cost of the projects was required to be incurred in the year zero within three months (1st quarter). The record revealed that an expenditure of Rs 104,348,278 on account of construction

& maintenance work, purchase of furniture, purchase of solar system and IT infrastructure was incurred in quarter 1,2,3,4 of year 1 in violation of the agreements. The incurring of capital expenditure beyond cut-off date was held irregular. The detail of expenditure is as under:

OM No.	Description	Amount (Rs)
25	Irregular capital expenditure incurred beyond cut-off date on account of NIC Quetta	63,181,052
26	Irregular capital expenditure incurred beyond cut-off date on account of NIC Karachi	24,809,078
27	Irregular capital expenditure incurred beyond cut-off date on account of NIC Peshawar	16,358,148
Total		104,348,278

Audit pointed this out to the management and PAO during November & December 2021. It was replied that all the capital expenditure incurred on NIC Peshawar, Karachi & Quetta were booked in the year zero on accrual basis of accounting by LMKT/LUMS and subsequently claimed from Ignite in upcoming quarters after payments were made to vendors.

The reply was not acceptable as the expenditure was incurred beyond the cut-off date without the approval of the BoD and the expenditure was required to be incurred on actual basis instead of accrual basis.

DAC in its meeting held on 21st December, 2021 directed the management to provide record regarding completion of capital works within year zero and 5%-10% would be acceptable in case of works executed beyond cut-off dates, otherwise the expenditure be got regularized from BODs.

Audit recommends that responsibility may be fixed for incurring expenditure beyond cut-off date without the approval of BoD and booking of expenditure on accrual basis instead of actual basis. The expenditure may also be got regularized from BoD.

(DP No. 276)

5.5.2 Non-recovery of outstanding dues - Rs 97.837 million

According to clause 6.1 of Long Distance International (LDI) License issued under section 21 of the Pakistan Telecommunication (Re-organization) Act, 1996, the Licensee shall contribute to the R & D Fund, an amount calculated on the basis of 0.5% of the Licensee's gross revenue from Licensed Services for the most recently completed Financial Year of the Licensee minus inter-operator payments and related PTA/FAB mandated payments. Further, clause 4.2.2 stipulates that the licensee shall make this contribution within 120 days at the end of financial year.

During audit of ICT R&D Fund for the year 2020-21, it was observed that Fund Management under the administrative control of MoITT failed to recover an amount of Rs 101,924,932 on account of R&D contributions against the billing issued to the telecom operators during 2020-21.

Audit pointed this out to the management and PAO during November & December 2021. It was replied that an amount of Rs 4.088 million had been recovered and efforts were under way to recover the remaining amount. The recovered amount had been verified leaving the recoverable balance of Rs 97.837 million. Therefore, the amount of para was reduced to the extent of the verified amount.

DAC in its meeting held on 21st December, 2021 directed the management to recover the remaining amount and get it verified from audit.

Audit recommends that remaining amount may be recovered from operators and get it verified from audit.

(DP No. 268)

5.5.3 Non-deduction of income/sales tax – Rs 65.760 million

According to section 153 of income tax ordinance 2001, income tax at prescribed rates was required to be deducted on account of hiring of services/purchase of goods and deposited into Government treasury. Further, as per clause 7.3 of the agreements, the vendors shall be responsible to comply with the relevant tax laws as applicable in Pakistan. All taxes shall be deducted as per applicable laws of Pakistan.

During audit of Ignite Company for the year 2020-21, it was observed that M/s Ignite hired the services of M/s LMKT and M/s LUMS to establish and maintain NICs at Peshawar, Karachi, Lahore & Quetta. The agreements were signed for five years. As per term and conditions of the agreements, an amount of Rs 370,748,917, under head CAPEX, was transferred to vendors. The record did not indicate that withholding tax and sales tax was deducted and credited into the Government treasury. The amount of income tax and sales tax on CAPEX expenditure was worked out to be Rs 65,760,335 (Income tax Rs 21,403,977 + Sales tax Rs 44,356,158). The detail is as under:

O.M. No.	NIC	Amount of Capex expenditure (Rs)	Amount of income tax (Rs)	Amount of sales tax (Rs)	Total tax (Rs)
36	Peshawar & Karachi	122,413,798	8,323,903	11,533,379	19,857,282
37	Lahore and Quetta	248,335,119	13,080,074	32,822,779	45,903,053
Total		370,748,917	21,403,977	44,356,158	65,760,335

Audit pointed this out to the management and PAO during November & December, 2021. It was replied that M/s LMKT and M/s LUMS withheld the income tax and sales tax on CAPEX expenditure and deposited them into government treasury.

The reply was not acceptable as no documentary evidence in support of reply was provided.

DAC in its meeting held on 21st December, 2021 directed the management to provide relevant records for verification to audit.

Audit recommends that amount of withholding tax and sales tax be recovered from the vendors, credit into government treasury and get it verified from audit.

(DP No. 277)

5.5.4 Un-authorized payment of salary to M/s LUMS Lahore - Rs 23.069 million

According to Rule 4 (3) of Corporate Governance Rules 2013, the chief executive is responsible for the management of the Public Sector Company and its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Act and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Ignite Company for the year 2020-21, it was observed that M/s Ignite hired the services of M/s LUMS to establish and maintain NIC at Lahore. The agreement was signed on 20th September, 2017 for five years. Audit observed that four key positions of Investment Director, Manager Marketing & Communication, Senior Officer Social Media & Digital Marketing and Technology Manager were lying vacant since inception. However, salaries against two posts i.e. Investment Director and Senior Officer Social Media & Digital Marketing were being drawn since inception. Thus, an irregular payment of Rs 23,068,800 was made to M/s LUMS Lahore. Detail of payment is given in **Annex-C** of this report.

Audit pointed this out to the management and PAO during November and December 2021. It was replied that Investment Director and Senior Officer Social Media and Digital Marketing remained occupied right from the inception of NIC Lahore till the dates when the incumbent

resigned and the same could be verified from financial reports of NIC Lahore.

The reply was not based on facts as the internal auditor i.e. M/s KPMG pointed out time and again that four key positions as stated above were lying vacant since inception. In reply to internal auditor the management of LUMS stated that two positions were advertised in July, 2020. However, the hiring process was got delayed due to Covid-19 and soon hiring of key position would be made.

DAC in its meeting held on 21st December, 2021 directed the management that M/s LUMS will authenticate the payment as well as appointment of Investment Director, Senior Officer Social Media & Digital Marketing and relevant record be provided to audit for verification.

Audit recommends that the matter be investigated in order to ascertain that no unauthorized payment was made on account of salary. Otherwise recovery be made from the concerned under report to audit.

(DP No. 262)

5.5.5 Un-authorized reimbursements - Rs 35.059 million

According to para 5 of the human resource document, M/s LMKT will deploy 12 personnel against the project during the currency period of the agreement. Further, as per clause 9.1 of the funding agreement with Virtual University of Pakistan (VUP), the company shall release the grant to VUP according to approved budget and as per financial proposal the VUP will charge the cost of human resource. There was no provision in the financial proposal that the re-imburement of leave encashment will be paid to the employees hired for the training purposes.

During audit of Ignite Company for the year 2020-21, it was observed that the management hired the services of M/s LMKT to establish and maintain NIC at Peshawar and also signed a contract with M/s Virtual University of Pakistan for the project titled “Digiskills training project” on 01-02-2018. The vendors deployed the human resource of twenty (20) and

eighteen (18) against the sanctioned strength of twelve (12) and thirteen (13) respectively. Thus, an unauthorized expenditure of Rs 21,886,000 was reimbursed on account of salaries to the vendors in violation of the above. Audit further observed that an amount of Rs 13,172,532 was incurred by M/s VUP on advertisement expenses, honorarium, SMS services, cloud services, production cost-content development and salaries of production and contract staff which was charged to contingency instead of their proper head of accounts. Thus, total expenditure of Rs 35,058,532 was held unauthorized.

Audit pointed this out to the management and PAO during November & December, 2021. It was replied that in technical proposal of NIC Peshawar, form “B6 – Composition of Incubation Management Team” was submitted by LMKT which included complete detail of employees i.e. position, name, role and responsibility. It was further replied that 13 staff members of Project Director Office and Admin & Finance were hired instead of 18 by VUP. The salary sheet was consolidated in such a way that it did not differentiate between different internal departments.

The reply was not acceptable as the human resource was deployed over and above the sanctioned strength as given in the human resource documents. Further, the expenditure on other services was charged to contingency instead of their respective head of accounts.

DAC in its meeting held on 21st December, 2021 directed the management to conduct inquiry at Ministry level and report thereof be provided to audit. It was further directed that relevant records regarding hiring of staff may be provided to audit for verification and expenditure on contingency be got regularized from BODs.

Audit recommends that matter may be investigated and fix the responsibility for violation of the contract agreements.

(DP No.264 & 278)

5.5.6 Constitution of Board of Directors against Companies Act, 2017

According to clause 31 of Article of Association table F of Companies Act 2017, the number of directors shall not be less than three (3) and not more than nine (9).

During the audit of Ignite Company for the year 2020-21, it was observed that MoITT constituted Board of Directors for Ignite Company consisting of thirteen members on 18th July, 2019. Audit held that appointment of thirteen (13) members was in violation of the Companies Act, 2017.

Audit pointed this out to the management and PAO during November & December, 2021. It was replied that Rule 6 (5) of the Research and Development Fund Rules 2006, fixes the number of directors to thirteen. Further, Ignite's approved Articles of Association fixes the number of directors to be thirteen.

The reply was not acceptable as after the promulgation of Companies Act, 2017 the SRO and Article of Association were required to be revised, in order to bring them in line with the companies Act, 2017.

DAC in its meeting held on 21st December, 2021 directed the management to reconstitute the Board of Directors from Cabinet under Companies Act 2017.

Audit recommends that the Board of Directors for Ignite Company may be constituted as per provisions of the companies Act, 2017 and if there is a conflict in the rules, the later should be amended as well.

(DP No. 293)

**MINISTRY OF INFORMATION
TECHNOLOGY &
TELECOMMUNICATION**

CHAPTER-6

**NATIONAL TELECOMMUNICATION
CORPORATION (NTC)**

Chapter 6

National Telecommunication Corporation (NTC) (MoITT)

6.1 Introduction

A) National Telecommunication Corporation (NTC) was established on 1st January, 1996 under the Pakistan Telecommunication (Reorganization) Act, 1996. The Corporation is a corporate body, managed by a Management Board consisting of a Chairman and two other members, to be appointed by the Federal Government. NTC is working under the administrative control of the Ministry of Information Technology and Telecommunication (MoITT). NTC was to maintain a fund known as NTC Fund which was to consist of grants, loans etc.

NTC prepares its budget and submits it for approval of the Federal Government before 1st June every year. Any surplus over receipt in a Financial Year is to be remitted to the FCF and any deficit from actual expenditure is to be made up by the Federal Government. The accounts of NTC are maintained in a form and format approved by the Auditor-General of Pakistan. In addition to the audit by the Auditor-General of Pakistan, its accounts are audited by other external auditors.

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

B) Comments on Budget and Accounts

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

Table-I Audit Profile of National Telecommunication Corporation (NTC)

(Rs in million)

Sr No	Description	Total Nos	Audited	Expenditure audited FY 2019-20	Revenue / Receipts audited FY 2019-20
1	Formations	15	08	3,968.542	4,100.280
2	<ul style="list-style-type: none"> • Assignment Accounts • SDAs 	-	-	-	-
3	Authorities/ Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

6.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 6,509.024 million were raised in this report during the current audit of NTC. This amount also includes recoveries of Rs 413.640 million as pointed out by audit. Summary of the audit observations classified by nature is as under:

Table-II Overview of Audit Observations

(Rs in million)

Sr No	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities (A+B+C)	2,433.837
A	HR/Employees related irregularities	21.594
B	Procurement related irregularities	512.338
C	Management of Accounts with Commercial Banks	1,899.905
4	Value for money and service delivery issues	0
5	Others	4,075.187
Total:		6,509.024

6.3 Status of Compliance with PAC Directives

Sr No	Audit Year	Total Paras	Total Directives	Compliance		%age
				Received	Not received	
1	1996-97	16	03	03	00	100
2	1997-98	11	11	11	00	100
3	1999-00	15	15	15	00	100
4	2000-01	17	17	17	00	100
5	2001-02	16	16	12	04	75
6	2004-05	16	16	16	00	100
7	2005-06 SAR	31	31	00	31	00
8	2005-06	15	15	15	00	100
9	2006-07	17	17	14	03	83
10	2007-08	13	07	00	07	00
11	2008-09	22	22	21	01	95
12	2010-11	30	23	20	03	87
13	2013-14	38	03	02	01	67

AUDIT PARAS

6.4 Irregularities

A. HR / Employees related irregularities

6.4.1 Excess payment due to wrong calculation of qualifying service for pension – Rs 11.230 million

According to para (v) & (viii) of permanent absorption orders issued at the time of absorption of officers, the officers were required to arrange transfer of dues from parent department within 45 days failing which they will be treated as fresh employees. In case of transfer of funds service period with parent department shall be counted for purpose of gratuity and other dues. No previous pension claim was admissible. It would cease to exist from the date of absorption.

During the audit of NTC for the year 2020-21, it was observed that three officers were permanently absorbed in NTC as Assistant Director, Deputy Director (F) and Director (F) from different government organizations. The officers had accepted the terms and conditions of absorption as conveyed by the NTC. According to these terms the officers had to arrange transfer of dues but no such transfer was got done. However, NTC management calculated the qualifying service of retiring officers upon superannuation by including period of services rendered with previous departments. This resulted in excess payment of Rs 11,229,873 as monthly pension and commutation.

Audit pointed this out to the management and PAO during September 2021. It was replied that on permanent absorption of the officers all legitimate dues were credited in NTC. At the time of creation of NTC all employees were governed under CPF/gratuity rules, therefore, at the time of absorption, it was mentioned in the terms and conditions that previous benefits will not be admissible to them. Later on NTC management board allowed pensionary benefits to its regular employees,

therefore, the same were extended to the officers along-with new employees.

The reply was not tenable as the terms and conditions of the absorption clearly stated that no pension would be admissible to the officer during service tenure in NTC and no previous pension claim was admissible. At the time of grant of pension in 2010 to NTC employees the terms and conditions of the officers absorbed in NTC were not reviewed which resulted in wrong calculation of pension.

DAC in its meeting held on 06th January, 2022 directed NTC management that in addition to submission of working paper to the Board, the subject case may also be referred to Finance Division for clarification.

Audit recommends that matter may be investigated to identify the person held responsible for wrong calculation of qualifying service. Further, clarification of Finance Division may also be obtained under intimation to audit.

(DP No.93)

6.4.2 Unauthorized appointments - Rs 3.444 million

According to approved Policy Guidelines by NTC Management Board in its 73rd meeting held on 10th February, 2011, vacancies may be published; local vacancy in local newspaper, regional vacancy in the region concerned. Vacancies must be placed on Government as well as NTC website and also circulated amongst NTC employees.

During the audit of NTC for the year 2020-21, it was observed that the management made appointments to various posts without publishing the vacancies in the media as per policy guidelines. These vacancies were filled through internal circulation only. Audit was of the view that due to these appointments, payment of salaries amounting to Rs 3,443,976 stands irregular. Detail of appointments is as under:

S.No.	No. of Employees	Region
01	Eleven (11) technical	North Region, Islamabad
02	Four (04) Accounts	North Region, Islamabad
03	Seventeen (17) Technical & Accounts	Central Region, Lahore
04	Thirteen (13) Technical & Accounts	South Region, Karachi

Audit pointed this out to the management and PAO during September 2021. It was replied that as per para 2.6 (d) of NTC's Employees Service Regulations, 2008 the vacancies could be filled through advertising in media; outsourcing; job posting bulletin; existing data bank; and requisition from Government, Public Sector Corporations, or Armed forces. Accordingly, direct induction quota was circulated among the NTC employees, shortlisted candidates were appointed after test and interview.

The reply was not acceptable as para 2.6(d)(iii) of NTC Employees Service Regulations 2008 describes that, present employees through "Job Posting Bulletin" could apply for internal promotions and transfers and not for initial appointments against the vacant posts. Hence, appointments and expenditure on pay & allowances of these officers stand irregular.

DAC in its meeting held on 06th January, 2022 pended the para till the decision from NTC Management Board. No further progress was reported till finalization of this report.

Audit recommends that matter may be investigated to fix responsibility for appointments without advertisement and violation of rules.

(DP No.85)

6.4.3 Irregular payment of bonus to officers - Rs 6.920 million

According to Regulation 3.7 of NTC Employees Service Regulations (ESR) 2008, the bonus for officers of NTC shall be paid with the concurrence of Finance Division.

During the audit of NTC for the year 2020-21, it was observed that NTC management paid an amount of Rs 6,919,772 on account of bonuses to officers and contractual employees without approval of the Finance Division in violation of the above regulation. Hence, the payment stands irregular.

Audit pointed this out to the management and PAO during September 2021. It was replied that approval/concurrence of Finance Division shall be shared with Audit as and when received.

The reply was not acceptable as the payment of bonus was made without approval of Finance Division.

DAC in its meeting held on 06th January, 2022 directed NTC to pursue the case of regularization already taken-up and regularization sanction be got verified from audit.

Audit recommends that responsibility may be fixed for payment of bonus without prior approval of the Finance Division besides recovery of the amount under intimation to Audit.

(DP No.81)

B. Procurement related irregularities

6.4.4 Abnormal delay in finalization of tender and non-execution of contract agreement – Rs 476.524 million

According to Rule 4 of Public Procurement Rules 2004, the 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. Rule 7 *ibid* further states that procurements exceeding the prescribed limit shall be subject to an integrity

pact, as specified by regulation with approval of the Federal Government, between the procuring agency and the suppliers or contractors.

During the audit of NTC for the year 2020-21, it was observed that a Project of establishment of Public Key Infrastructure was awarded to NTC by ECAC on Pre-deposit basis in year 2018. Resultantly NTC called open tender with the opening date of 12th December, 2018 which was further extended upto 15th February, 2019. The subject tender was cancelled without recording any reason and project was retendered on 29th October, 2019 and dates for opening of bids were extended time and again. However, finally the bids were opened on 13th January, 2020 and tender evaluation committee recommended awarding the work to M/s Ascertia with the lowest cost of Rs 476.752 million. After finalization of tender evaluation, a Letter of Intent (LoI) was issued to the contractor on 14th, September, 2020 after a delay of eight (8) months.

Audit further observed that the subject LoI was cancelled on 29th April, 2021 on the plea that sufficient funds were not available whereas the ECAC had already transferred sufficient funds to NTC against the Provisional Capital Cost Bills issued by NTC. The cancellation of LoI was withdrawn vide letter dated 26th May, 2021 on the request of the contractor and after taking up the matter by ECAC. The contractor was asked to make necessary arrangements for signing the contract within 7 days of issuance of this LoI. However, NTC management failed to execute the subject contract to-date and did not sign an integrity pact in violation of the above rules. Audit was of the view that the NTC management failed to complete the procurement process efficiently and effectively resulting in delay of the benefits that the project was expected to bring to sponsoring agency i.e., ECAC.

Audit pointed this out to the management and PAO during September, 2021. It was replied that NTC called open tender for establishment of PKI which was opened on 15th February, 2019 but could not succeed as the requirement of PKI was complex and the committee

recommended its retender for healthier competition. Accordingly, the requirement was reviewed and the project was retendered on 29th October, 2019. Due to limited solution providers in the field, the extension was granted on the request of potential bidder to have a technically better and financially viable solution providers. The law enforcement agencies had also some reservations regarding security requirements and it took some time to clarify/implement their guidelines.

The reply was not acceptable as there was abnormal delay in the project. Unnecessary delay in finalization of the tender and non-finalization of contract agreement was not only wastage of resources but also hampering the goal of achieving the vision of digital Pakistan.

DAC in its meeting held on 06th January, 2022 directed NTC management to make a formal agreement with the ECAC according to GFR. DAC further directed for verification of relevant original record within 30 days.

Audit recommends that responsibility for unnecessary delay in the project may be fixed besides compliance of the DAC directives.

(DP No.108)

6.4.5 Irregular expenditure due to award and renewal of contract without open tender– Rs 17.765 million

Rule 12 of Public Procurement Rules 2004 states that procurement over five hundred thousand rupees and upto the limit of three million shall be advertised on the Authority's website in the manner and format specified by the Regulations by the Authority from time to time.

During the audit of NTC for the year 2020-21, it was observed that a contract was awarded for 3 years to M/s CRPL in May 2005 without open tendering for two services i.e. printing of monthly bills @ Rs 6 pm per customer and interconnect customer billing @ Rs 25,000 per interconnect per month. The subject agreement was revised time and again

with the same contractor without resorting to open tender. The last extension in the contract agreement was issued for the period 1st January, 2021 to 31st December, 2021 for the jobs mentioned in the following table:

Task	Frequency of charges	Rate in Rupees
Monthly billing processing charges (Telephone & Data Services Separately)	Per connection	Rs 6.9
Monthly operation, maintenance and support (Three person on site)	-	Rs 150,000
Interconnect billing (claims & counter claims)	Per operator Per month	Rs 27,000 if invoice amount above 50,000 per month Rs 6,750 if invoice amount upto Rs 50,000 per month
CDRs Reconciliation charges*	On Demand Per operator, Per month	Rs 20,000 if interconnect bill upto Rs 4 million Rs 50,000 if interconnect bill above Rs 4 million
WLL/White Label/Toll Free Data Collection from PTCL	Per month	Rs 80,000

NTC management incurred an expenditure of Rs 17,764,785 during FY 2020-21 which was considered as irregular being in violation of the above rules. Audit further observed that NTC was maintaining its billing, revenue, data and IT departments having sufficient number of personnel. Similarly, the requisite software and hardware facilities required for the job were also available with NTC. Therefore, there was no justification for hiring the services of M/s CRPL for the jobs mentioned above. In the presence of spending an amount of Rs 10,884,252 during FY 2020-21 on the salaries of IT department, the outsourcing of billing was unjustified and indicated weak human resource management in the organization.

Audit pointed this out to the management and PAO during September 2021. It was replied that initially NTC was having TDM exchanges from M/s Siemens which was a proprietary operating system. NTC MIS section had devised a billing system that was not fully automatic. On survey of the market it was found that there was only one company M/s CRPL which had the capacity for such operating system and developed billing software. Therefore, being proprietary in nature, tendering was not required.

The reply was not acceptable as NTC did not provide a proprietary certificate in support of the reply. Moreover, no justification was provided for extending the contract time and again since 2005. Furthermore, NTC had a fully equipped IT wing with enough human resources but it was not tried to develop its own billing system. Moreover, NTC management failed to migrate from the old TDM exchanges to IP exchanges.

DAC in its meeting held on 06th January, 2022 directed NTC management to conduct fact finding inquiry within 30 days and justify the expenditure according to PPRA Rules. DAC further directed for verification of working of IT department of NTC. No further progress was reported till finalization of this report.

Audit recommends that matter may be investigated for facts finding of the hiring of subject contractor since 2005 instead of establishing its own billing system.

(DP No.87)

6.4.6 Irregular award of work without open tender - Rs 18.049 million

According to Rule 12 (1) of PPRs 2004, procurements over five hundred thousand rupees and upto the limit of three million rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These opportunities may

also be advertised in print media, if deemed necessary by the procuring agency.

During the audit of NTC for the year 2020-21, it was observed that a microwave tower collapsed on 23rd March 2021 which was a source of revenue for NTC amounting to Rs 17,279,000 per annum. For reconstruction of tower a tender was floated and the tender evaluation committee recommended on 19th April, 2021 to award the work of “Development of Self Supported Microwave Tower at NTC Murree” to M/s NZ & Company being the lowest bidder. However, later on the management issued a letter on 2nd July, 2021 to the company for cancellation of tendering process. Afterwards, the work was awarded to M/s Joyn & Company for Rs 2,209,800 by getting quotations from potential contractors in violation of the PPRA rules. The work could not be completed despite declaring operational emergency. Non-completion of the work deprived NTC of its revenue of Rs 15.839 million (Rs 17.279/12 months x 11 months) till February, 2022.

Audit pointed this out to the management and PAO during December, 2021. It was replied that M/s NZ & Co was not willing to utilize existing foundation, while on the other hand, NTC had serious concerns over the sensitive nature of its land. Then, the tender process was cancelled and a committee for repair/rehabilitation of tower on existing foundation was approved by MD NTC on 30th June, 2021. Three quotations were called from open market for repair/rehabilitation of tower on NTC existing foundation.

The reply was not acceptable as the work was awarded on quotation basis in violation of the Public Procurement Rules, 2004.

DAC in its meeting held on 06th January, 2022 directed NTC to provide the Fact-Finding Inquiry Report along with the comments of the PAO to audit for verification. No further progress was reported to audit till finalization of this report.

Audit recommends that responsibility may be fixed for violation of PPRA rules, delay in execution of project and depriving the corporation of considerable revenue.

(DP No.326 & 328)

C. Management of Accounts with Commercial Banks

6.4.7 Non-closure of accounts from commercial banks – Rs 1,899.905 million

According to Finance Division (Budget Wing) letter dated 16th July, 2021 and para 2 of Special Assignment Account Procedure 2021, the Cash Management and Treasury Single Account Rules 2020 are in force since 24th July, 2020 with the approval of the Federal Government. The subject system requires closure of existing bank accounts maintained by the Ministries, Divisions, Attached Department etc and transfer of balances to Central Account No.1 (Non-Food) maintained in State Bank of Pakistan.

During the audit of NTC for the year 2020-21, it was observed that the management did not close its accounts from commercial banks. The Central Account was also not opened in the State Bank of Pakistan in violation of the above. This resulted in non-transfer of bank balances to Central Account No.1 amounting to Rs 1,899.905 million.

Audit pointed this out to the management and PAO during September 2021. It was replied that Finance Division (Budget Wing) issued a list of departments to be included in the Treasury Single Account System vide notification dated 12th August, 2020. Only one department under MoITT was listed. NTC was not included in the list of these departments.

The reply was not acceptable as section 36 of Public Financial Management Act, 2019 clearly defined the public entities according to which NTC fell under the definition of public entities.

DAC in its meeting held on 06th January, 2022 directed that MoITT may examine the case and outcome be shared with Audit to proceed further. No further progress was reported to audit till finalization of this report.

Audit recommends that the matter be referred to MoITT and Finance Division for clarification to proceed further in the matter.

(DP No.99)

6.5 Others

6.5.1 Unauthorized financial concurrence – Rs 1,119.297 million

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

During the audit of NTC for the year 2020-21, it was observed that General Manager (Finance) was granted charge of the post of Chief Financial Officer (CFO) in addition to his duties, till further orders vide letter dated 05th March, 2020. The charge as given in the subject letter did not specify nature of the charge. Moreover, the charge was kept open till further orders which were against the general principles as stated in Sl. 117 of Estacode. Audit was of the view that the said officer was not authorized to grant financial concurrence and therefore expenditure of Rs 1,119.297 million for the year 2020-2021 incurred on the basis of his concurrence was held unauthorized.

Audit pointed this out to the management and PAO during September 2021. It was replied that the post of DG finance was lying vacant since 3rd June, 2019. The Director Finance was assigned the current

charge of CFO for the period of three months dated 19th June, 2019 and on expiry of the three months, he continued to look after the work of the post of CFO. NTC took up the case with MoITT for grant of NOC for filling the vacancy through direct appointment. After promotion of officer on 28th February, 2020 as GM Finance, the officer was allowed to continue the charge of post of CFO in addition to his normal duties.

The reply was not acceptable as the charge of CFO was not defined in the orders issued by the HR Wing. The financial concurrence given by the officer as CFO was irregular violating the NTC Service Regulations, Delegation of Powers and provisions contained in Esta Code.

DAC in its meeting held on 06th January, 2022 directed NTC to submit working papers in next meeting of the Board of Directors at the earliest and all relevant records be got verified from Audit. No further progress was reported to audit till finalization of this report.

Audit recommends that responsibility may be fixed for violation of its own approved delegation of powers and service regulations.

(DP No.96)

6.5.2 Unauthorized investment of funds – Rs 841.381 million

According to Finance Division O.M dated 2nd July, 2003 (Investment Policy), working balance limit of each organization should be determined with the approval of Administrative Ministry in consultation with Finance Division and the amount of working balance may be maintained in the Current or Saving Bank account.

During the audit of NTC for the year 2020-21, it was observed that the approved working balance of NTC was Rs 300 million which could be placed in a bank as per approved policy whereas NTC invested Rs 841.381 million in commercial banks without any legal authority. The investment was made without approval from the Finance Division in violation of the above. Detail of last investment during 2020-21 is as under:

S.No	Name of Bank	Issue Date	Due Date	Amount (Rs)
01	Askari Bank	20.05.2021	20.11.2021	420,000,000
02	Samba Bank Ltd.	09.01.2021	09.07.2021	421,380,789
TOTAL				841,380,789

Audit pointed this out to the management and PAO during September, 2021. It was replied that NTC devised its investment policy in May, 2007 with the approval of NTC Management Board for investment of working balance, insurance fund and trust funds. The NTC working balance includes the working balance limit approved by the Finance Division and temporary funds available for Annual Development Plan (ADP) and accrued liabilities. Since then NTC was investing funds with the banks as per recommendation of NTC audit committee and approval of the Management Board.

The reply was not acceptable as NTC approved working balance was Rs 300 million which could be invested in the bank in the light of approved investment policy. Therefore, investment of ADP funds was against the rules. NTC prepared its unrealistic ADPs in the budget every year but could not utilize the funds. The unutilized funds were invested in commercial banks instead of surrendering to FCF.

DAC in its meeting held on 6th January, 2022 upheld its earlier decision dated 28th January, 2021 and directed NTC management to pursue the case already taken up with the Finance Division and outcome be got verified from Audit. No further progress was reported till finalization of this report.

Audit recommends that matter may be investigated with a view to fixing the responsibility for un-authorized investment.

(DP No.98)

6.5.3 Non-Recovery of Revenue Receipts – Rs 165.453 million

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

During the audit of NTC for the year 2020-21, it was observed that the management failed to recover an amount of Rs 165,453,498 on account of co-location charges, MSDN Intranet, Webhosting and Data Centre Revenue from different telecom companies and organizations during FY 2020-21. Summary of the receivable was as under:

S.No	Name of Service	Amount (Rs)
01	Co-Location Charges (Space & Tower)	6,495,036
02	Multi Services Data Network (MSDN) Intranet	27,585,101
03	Webhosting	3,679,515
04	Data Centre Revenue	117,541,114
05	Interconnect revenue (Telenor) for the Month of December 2020 to June 2021	7,059,620
06	Interconnect revenue (Zong) for the Month of May & June 2021	3,093,112
TOTAL		165,453,498

Audit pointed this out to the management and PAO during September 2021. It was replied that out of observed amount of Rs 197.048 million an amount of Rs 108.886 million had been recovered or adjusted.

The reply was not tenable as the department was required to make prompt recovery. Moreover, record relating to recovery of only Rs 31.594 million could be verified. The amount of para was reduced accordingly.

DAC in its meeting held on 06th January, 2022 directed NTC management to recover the balance amount and get it verified from audit. No further progress was reported till finalization of this report.

Audit recommends that the outstanding amount may be recovered and get it verified from audit. The process of recovery may also be strengthened in order to ensure timely collection.

(DP No.114)

6.5.4 Non-recovery of outstanding dues and vested properties from PTCL – Rs 155.762 million

According to clause 6.5 (a) of the main body of the Interconnection Agreement (IA) and clause 2.5 of Schedule-12 thereof, signed between PTCL and NTC dated 29th April, 2005 the invoiced party is required to pay undisputed amounts within due date of the respective invoices and payments cannot be withheld without raising formal dispute that can only be raised within 14 working days of receipt of invoice.

During the audit of NTC for the year 2020-21, it was observed that an amount of Rs 155,761,741 was billed to PTCL on account of various services during FY 2020-21. NTC management failed to recover the requisite amount according to the due dates given in the invoices. NTC management failed to take over the possession of its vested properties from PTCL despite lapse of more than two decades. Detail is given in **Annex-D** of this report.

Audit pointed this out to the management and PAO during September, 2021. It was replied that reconciliation between NTC and PTCL was a continuous process that had been completed up to December 2016 and net-off amount had also been paid to PTCL, whereas for other components payment had been made up to December, 2018.

The reply was not acceptable as the reconciliation of the dues was not done regularly which resulted in non-recovery of dues.

DAC in its meeting held on 06th January, 2022 directed NTC management to identify the persons held responsible for non-recovery of amount from PTCL besides reconciliation/recovery of the amount and its verification by audit within 3 months.

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

(DP No.115& 320)

6.5.5 Non-reconciliation of figures and payment to PTCL – Rs 1,174.279 million

According to Rule 89 (viii) of GFR Vol-I, the main objective of the reconciliation is to ensure that the departmental accounts are sufficiently accurate to render possible an efficient departmental control of expenditure. The reconciliation should be made monthly. Further, clause 6.5(a) and clau2.5 of schedule 12 of the interconnect agreement signed between PTCL and NTC dated 29th April, 2005, the invoiced party is required to pay undisputed part within due date of the respective invoices.

During the audit of NTC for the year 2020-21, it was observed that the management did not make any reconciliation with PTCL after December 2018 which resulted in reporting of provisional figures in financial statements. The subject matter was also highlighted as qualification by the external auditors of NTC in the annual audited accounts of the Corporation for the year ended June 30, 2020. Non-reconciliation of traffic and media and other services raised questions on the completeness and accuracy of the figures. As per the statement provided by NTC, an amount of Rs 444,430,598 was lying un-reconciled with PTCL. Further, NTC was liable to pay an amount of Rs 729,848,048 to PTCL against reconciled figures. Detail of reported un-reconciled figures and payment was as under:

S.No	Description	Period	Payable	Receivable	Balance
01	Traffic	Jan to Jun 2017	39,206,294	21,727,431	17,478,863
02	Traffic	2017-18	54,588,518	46,140,306	8,448,212

03	Traffic	2018-19	54,309,695	38,804,117	15,505,578
04	Traffic	Jan to June 2019	121,929,096	50,304,156	71,624,940
05	Traffic & Media	2019-20	317,347,319	147,091,761	170,255,558
TOTAL			587,380,922	304,067,771	283,313,151
06	Traffic & Media	July-11 to Dec-16			161,117,446
07	PTCL-NTC outstanding settlement	2016 to 2020			729,848,048
Grand total payable as on 30.06.2020					1,174,278,645

Audit pointed this out to the management and PAO during September, 2021. It was replied that reconciliation between NTC and PTCL was a continuous process and was made on the basis of settlement sheets of different components i.e. Co-location, Tie-Pairs, OFC Pairs, Long Haul E1s/FE Media, Local E1s/FE Media, traffic etc. duly signed between relevant quarter of NTC and PTCL. The process of signing these components for traffic has been completed up to December, 2016 and net-off amount has been paid to PTCL, whereas for other components payment had been made up to December, 2018. For the remaining period, the process of reconciliation was in progress.

The reply was not acceptable as the NTC failed to reconcile the media/traffic after 2016. The financial statements prepared on the basis of un-reconciled amounts do not present true & fair picture. Further, as a result of reconciliation dated 24.11.2020 NTC did not make payment to PTCL due to which PTCL informed regarding imposition of penalty of Rs 85 million.

DAC in its meeting held on 06th January, 2022 directed NTC to make assessment and identify the persons held responsible for the delay in reconciliation within 30 days under intimation to audit. No further progress was reported till finalization of this report.

Audit recommends that responsibility may be fixed for delay in reconciliation and non-clearance of liabilities under report to audit.

(DP No.105 & 106)

6.5.6 Non-recovery of outstanding dues from the subscribers – Rs 77.431 million

Rule 8 and 26 of GFR Vol-I stipulate that it is the duty of the departmental controlling officers to see that all sums due to government are regularly and promptly assessed, realized and duly credited in the Public Account. No amount due to government should be left outstanding without sufficient reasons, and where any dues appear to be irrecoverable the orders of competent authority for their adjustment must be sought.

During the audit of NTC for the year 2020-21, it was observed that the following units of NTC failed to recover an amount of Rs 77.431 million on account of working, closed & casual telephone connections, Digital Subscriber Lines (DSL), Wireless Local Loop (WLL), Primary Rate Interference (PRI) and Un-identified connections from different departments/subscribers during Financial Year 2020-21. The region-wise detail was as under:

(Rupees in million)

Sl. No	PDP Nos	Name of Unit	Outstanding dues against	Amount
1.	01-22	Director NTC Karachi	Working, DSL, closed, casual & un-identified	28.883
2.	31-22	Director NTC, Lahore	DSL, Working & Closed Connections	9.785
3.	310-22	Director NTC Islamabad	Un-Identified, working DSL & PRI, connections	22.643
4.	-do-	Director NTC Peshawar	PRI, DSL, working, casual, WLL & closed connections	5.724
5.	-do-	Director NTC Rawalpindi	PRI, DSL, working & closed connections	5.853
6.	-do-	Director NTC Multan	DSL Working, Closed & PRI	4.543
Total				77.431

Audit pointed this out to the management and PAO during September and November, 2021. It was replied that efforts were underway to recover the outstanding dues.

DAC in its meeting held on 06th January, 2022 directed NTC to get the recovered amount verified from Audit besides recovery of the balance amount within 60 days. No further progress was reported till finalization of this report.

Audit recommends that outstanding amounts be recovered and get it verified from audit besides system of recovery be improved to keep the outstanding recovery at the minimum level.

(DP No.01, 31&310)

6.5.7 Non-completion of pre-deposit work - Rs 372.241 million

According to letter dated 15th March, 2018 of ECAC, the Council has resolved to establish ECAC Certification Authority through NTC on pre-deposit basis.

During the audit of NTC for the year 2020-21, it was observed that the management had issued Provisional Capital Cost (PCC) Bill amounting to Rs 42,532,323 to ECAC vide letter dated 19th March, 2018 and an amount of Rs 16,000,000 as advance payment was received on 6th April, 2018. NTC management failed to start the work and informed the ECAC vide letter dated 31st July, 2018 that RFP for establishment of the setup, based on the prepared design was near completion and would be published after approval of the competent authority. NTC management issued a revised bill on 10th June, 2019 for Rs 255,252,197. On continued pursuance by the client M/s ECAC for the status of work, NTC management issued another bill vide letter dated 30th July, 2020 amounting to Rs 528,700,741. ECAC made a total payment of Rs 372.241 million till date as per details hereunder:

(Rupees in million)

Sl. No	PCC bill No. & date	Amount (Rs)	Date of Payment	Amount (Rs)
01	182 of 19.03.2018 (1 st)	42,532,323	06.04.2018	16.000
02	182 of 10.06.2019 (Revised)	255,252,197	24.06.2019	84,000
03	182 of 30.07.2020 (Revised)	528,700,741	28.06.2019	0.108
04			26.06.2020	100.548
05			29.03.2021	70.550

06			07.04.2021	37.900
07			21.04.2021	63.136
Total Payment received				372.241

Audit has the following observations:

- (i) Revision of Provisional Capital Cost (PCC) bill again and again, not concluding the agreement with the client and not starting work despite receipt of Rs 372.241 million indicated mismanagement on the part of NTC. Audit is of the view that NTC has no technical expertise on the subject project which resulted in multiple revisions of PCC bill and non-initiation of the work till date.
- (ii) Issuance of PCC bill and receipt of payment was not in accordance with the NTC pre-deposit policy which stated that NTC was required to receive 50% advance payment against its PCC bills. Further, upon completion of the work Final Capital Cost (FCC) bill may be issued to the client for final payment within 2 months.
- (iii) Terms and conditions, given in the PCC bill were not in accordance with Rule 19 of GFR Vol-I. This may result in imposition of LD charges on NTC by the client.

Audit pointed this out to the management and PAO during September, 2021. It was replied that NTC called first tender for establishment of PKI which was opened on 15th February, 2019 but could not be succeeded due to very high cost. The scope of work was revised in accordance with available funds and the work was retendered as per PPRA rule on 29th October, 2019. Now the contract has been concluded with the lowest successful bidder and execution has been initiated. The revised PCC bill of Rs 568 million including other services has been served and submitted to ECAC for favour of payment.

The reply was not acceptable as NTC failed to execute the work from March 2018. This resulted in non-completion of the vision of the Government of Pakistan regarding digital Pakistan. Furthermore, non-

completion of the work also resulted in loss of revenue on account of certification/accreditation by ECAC. The general public was also deprived of the benefits of accredited services.

DAC in its meeting held on 06th January, 2022 directed NTC management to make a formal agreement with the ECAC according to General Financial Rules. DAC further directed for verification of relevant original record within 30 days. No further progress was reported till finalization of this report

Audit recommends that responsibility for not starting the work may be fixed under report to audit. Audit also stresses improved management practices in NTC to cater for such tasks.

(DP No.102)

6.5.8 Loss due to change in approved rate of surcharge – Rs 86.553 million

According to Rule 23 of GFR Vol-I, every government officer should realize fully and clearly that he is personally responsible for any loss sustained by government through fraud and negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

During the audit of NTC for the year 2020-21, it was observed that a portion of NTC Regional office building, Lahore was rented out to M/s Multinet Pakistan (Pvt.) Ltd. w.e.f. 1st June 2008 for the period of three years. The contract was renewed from time to time @ 10% annual compound increase as per lease agreement. The rates of rent for 1st and 2nd floor for the period ending on 30th June, 2018 were Rs 204.6 & Rs 186 per Sq.ft respectively. NTC management unjustifiably decreased the rent of 1st & 2nd floor from Rs 204.6 to Rs 95 & Rs 186 to Rs 90 respectively instead of increasing it @ 10% annually as per agreement while granting extension from 1st July, 2018 to 30th June, 2021. Audit further observed that rate of

surcharge @ 5% per month on outstanding amount, as approved by the MD NTC, was unauthorizedly reduced to 1.75% by the GM Central NTC Lahore. This resulted in loss of Rs 86,552,787 (58,516,034 + 28,036,753) to the national exchequer.

Audit pointed this out to the management and PAO during September, 2021. It was replied that extra space was rented out to M/s Multinet since 2008 at Rs 65 per sq.ft with 10 % annual increase which reached the level of Rs 204 per sq. ft for first floor and Rs 186 for second floor. The tenant requested that either the rent be decreased or this plea may be considered as vacation notice. To ascertain the current rates, a tender was floated in February, 2018 & highest rate of Rs 90 per sq. ft. was offered and accordingly rate of Rs 95 per sq. ft was approved.

The reply was not acceptable as the premises was not got vacated from tenant before floating tender. Moreover, the tender was not participated by M/s Multinet but it was awarded the contract. No reply was given as to why the surcharge was reduced.

DAC in its meeting held on 6th January, 2022 directed to conduct a fact-finding inquiry (FFI) at Ministry level and report of the inquiry committee along with the comments of the PAO may be furnished to audit. No further progress was reported to audit till finalization of this report.

Audit recommends that responsibility may be fixed against those held responsible for loss to the corporation.

(DP No.24 & 26)

6.5.9 Loss due to un-justified waiver of penalty – Rs 7.427 million

According to Clause 1(iii) of lease agreement between NTC and M/s Multinet Pakistan Pvt. Ltd made on 14th May 2008 for renting out of portion of regional office building Lahore, the lessee shall pay rent of six months in advance before 1st December, 2010 failing which a penalty equal to 5% per month would be imposed on outstanding amount of rent.

During the audit of NTC for the year 2020-21, it was observed that a penalty amounting to Rs 7,427,262 for the period from November, 2011 to October, 2014 was imposed on M/s Multinet by NTC management on outstanding amount of rent. However, later on the same was waived off by the then Chairman NTC in violation of agreement clause without any cogent reasons due to which national exchequer sustained loss.

Audit pointed this out to the management and PAO during September, 2021. It was replied that M/s Multinet forwarded its request for the waiver of penalty of Rs 7.427 million to Chairman NTC. Keeping in view the long-term business relationship, a committee was constituted by the NTC Management. Chairman NTC approved the waiver of penalty on the recommendation of committee.

The reply was not acceptable as the penalty was imposed according to terms and conditions of agreement and waiver was an undue favour granted to the tenant.

DAC in its meeting held on 6th January, 2022 pended the para till the report of the FFI already constituted by the NTC.

Audit recommends that persons responsible for loss to the national exchequer may be proceeded against besides recovery of loss from the responsible.

(DP No.28)

6.5.10 Loss due to undue favour to lessee – Rs 35.927 million

According to Para 2 of terms & conditions of tender documents for renting out of space of NTC regional office Lahore, the rent as mentioned above should be received in form of biannual advance from the date of signing of agreement and also in form of biannual advance for subsequent period with 10% annual increase.

During the audit of NTC for the year 2020-21, it was observed that NTC Lahore rented out portion of Regional Office building to

M/s Khazana Enterprises (Pvt.) Ltd. for fifteen years and as per clause 2 of agreement, the rate of increase in rent on yearly basis was mentioned as 5% instead of 10% in violation of above terms & conditions of tender documents due to which a heavy loss of Rs 35,927,139 would be sustained by national exchequer during entire period of fifteen years' lease.

Audit pointed this out to the management and PAO during September, 2021. It was replied that the subject space could not be rented out despite several tenders since 2008. A yearly increase @10% was mentioned in the tender documents but the agreement was signed according to the request of tenant regarding annual increase @ 5% on mutually agreed terms and conditions.

The reply was not acceptable as annual increase @ 10% was benchmark for all tender participants. Hence, decrease in annual percentage of rent after finalization of tender process was an undue favour to the tenant.

DAC in its meeting held on 6th January, 2022 directed to conduct a Fact-Finding Inquiry (FFI) at Ministry level and a report of the inquiry committee along with the comments of the PAO may be furnished to audit.

Audit recommends that responsibility may be fixed against those held responsible for loss to the corporation.

(DP No. 25)

6.5.11 Un-authorized transfer of lease rights - Rs 24.442 million

According to Para 22 of terms & conditions of tender documents for renting out of open space of NTC Microwave Station, the lessee shall not sub-let or assign the lease rights.

During the audit of NTC for the year 2020-21, it was observed that 30 Kanal land of Microwave Station Bhalwal was rented out to Mr. Zaki Abbas @ Rs 10,000 per kanal per month through open tender. The lease

agreement for the period from 1st March, 2018 to 28th February, 2034 (16 years), signed on 16th February, 2018, was got registered with Sub-Registrar Bhalwal vide task No. 4676878 dated 11th June, 2018. Advance rent and security were paid by tenant accordingly. The lessee submitted an application on 7th February, 2019 for grant of possession of 6 Kanal land for installation of petrol pump and cancellation of 24 Kanal land which was accepted and lease agreement for 24 Kanals was cancelled vide letter dated 07th May, 2019. Mr. Zaki Abbas, the lessee sublet 4 Kanal out of 6 Kanal land to M/s Hascol Petroleum Limited @ Rs 50,000 per month for the period of fifteen (15) years through lease agreement which was got registered with Sub-Registrar Bhalwal on 28th June, 2018 without intimation to NTC management. Later on, the lessee submitted applications on 7th December, 2019 & 20th July, 2020 for change of title of lease of 6 Kanal land in favour of Mr. Tahir Hussain Malik which was accepted and fresh lease agreement for 6 Kanal was signed on 15th October, 2020 without cancellation of lease agreement with Mr. Zaki Abbas. Audit was of the view that entire process of sub-letting and transfer of title of lease was held un-authorized/un-justified being violation of above rule and terms & conditions of tender. The process of tendering was also held irregular as the process was initiated for entirely different stretches of land and for different purpose.

The matter was reported to the management in September, 2021. It was replied that in compliance with audit observation the process for cancellation of lease agreement at the office of Sub Registrar Bhalwal had been initiated and Mr. Zaki Abbas and NTC representative would attend the Sub Registrar office Bhalwal for cancellation. Audit would be informed accordingly on receipt of documents from Registrar Office.

DAC in its meeting held on 6th January, 2022 pended the para till the report of the FFI already constituted by the NTC.

Audit recommends that report of the FFI alongwith the comments of PAO may be shared with audit.

(DP No.27)

6.5.12 Non- recovery of outstanding dues from PAF for execution of Pre-Deposit works Rs.14.994 Million

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

During the audit of NTC for the year 2020-21, it was observed that Director Development (South) NTC Karachi carried out miscellaneous pre-deposit works for PAF during 2020-21. The works were completed during 2019-20 but an amount of Rs 14,994,582 was not recovered from PAF authorities.

Audit pointed this out to the management and PAO during September, 2021. It was replied that Final Capital Bill of the subject completed works had already been forwarded to PAF for payment as per policy. The recovery of outstanding amount was being pursued with PAF authorities.

DAC in its meeting held on 6th January, 2022 directed NTC to pursue the case vigorously, recover the amount and get it verified from audit within three months.

Audit recommends that the outstanding amount may be recovered and get it verified from audit.

(DP No.17)

**MINISTRY OF INFORMATION
TECHNOLOGY &
TELECOMMUNICATION**

CHAPTER-7

**SPECIAL COMMUNICATIONS
ORGANIZATION (SCO)**

Chapter 7

Special Communications Organization (SCO)

(MoITT)

7.1 Introduction

A) Special Communications Organization was established in July, 1976 for the operation, expansion, maintenance and modernization of telecom system in Gilgit Baltistan including Azad Jammu and Kashmir through an executive order of the Prime Minister of Pakistan dated 10th May 1976. It is managed by a Project Management Board under the Chairmanship of Signal Officer in Chief (Army). Its administrative control is with the Ministry of Information Technology and Telecommunication (MoITT).

DG SCO exercises administrative and financial powers given in Financial Budgeting, Accounting and Audit (FBA&A) Procedure as approved by the Project Management Board. Its accounts are maintained on the accounting system of erstwhile Telephone & Telegraph Department. CMA (FWO) is responsible for pre-audit and reconciliation of the expenditure of SCO with AGPR.

B) Comments on Budget and Accounts

7.1.1 The Expenditure Statement of SCO for the financial year 2020-21 revealed that funds of Rs 220.560 million were authorized under the head of accounts A01270 – Others, whereas, SCO incurred expenditure of Rs 222.083 million under above-mentioned head of accounts. This resulted in excess expenditure of Rs 1.523 million which indicated ineffective/weak financial discipline.

7.1.2 The Expenditure Statement of SCO for the financial year 2020-21 revealed that funds of Rs 13,962.936 million were authorized under following heads of accounts. The detail is as under:

(Rupees in million)

Head of Account	Final Grant	Actual Expenditure	Savings
IB-0940-Special Communications	3,940.977	3,938.913	2.064
FC 21 J07-Information Technology	3,940.977	3,938.913	2.064
Grant No 089	3,940.977	3,938.913	2.064
A01101-Basic Pay of Officers	124.882	124.683	0.199
A01151-Basic Pay of other Staff	2,015.123	2,013.309	1.814
Total	13,962.936	13,954.731	8.205

SCO incurred expenditure of Rs 13,954.731 million under these heads of accounts. This resulted in savings of Rs 8.205 million during 2020-21. The unutilized funds were not surrendered to the Finance Division. Financial mismanagement of public funds and non-surrender of savings in time resulted in non-utilization of funds, which shows weak financial management.

Table-I Audit Profile of SCO**(Rs in million)**

Sr No	Description	Total Nos	Audited	Expenditure audited FY 2020-21	Revenue / Receipts audited FY 2020-21
1	Formations	11	05	8,894.441	5,094.37
2	<ul style="list-style-type: none"> • Assignment Accounts • SDAs 	-	-	-	-
3	Authorities / Autonomous Bodies etc under the PAO	-	-	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

7.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 6,601.263 million were raised in this report during the current audit of SCO. This amount also includes recoveries of Rs 260.710 million as pointed out by audit. Summary of the audit observations classified by nature is as under:

Table-II Overview of Audit Observations**(Rs in million)**

Sr No	Classification	Amount
1	Non-production of record	0
2	Reported cases of fraud, embezzlement and	-
3	Irregularities (A+B+C)	5382.594
A	HR/Employees related irregularities	-
B	Procurement related irregularities	4,879.798
C	Management of Accounts with Commercial	502.796
4	Value for money and service delivery issues	-
5	Others	1,218.669
Total:		6,601.263

7.3 Status of Compliance with PAC Directives

Sr No	Audit Year	Total Paras	Total Directives	Compliance		%age
				Received	Not received	
1	1992-93	22	22	18	04	82
2	1996-97	00	00	00	00	00
3	1997-98	04	04	04	00	100
4	1999-00	07	07	07	00	100
5	2000-01	05	05	05	00	100
6	2001-02	05	05	05	00	100
7	2005-06	09	09	09	00	100
8	2008-09	14	14	14	00	100
9	2010-11	16	16	13	03	81
10	2013-14	22	03	02	01	67

AUDIT PARAS

7.4 Irregularities

B. Procurement related irregularities

7.4.1 Irregular award of contracts of different development projects - Rs 4,372 million

According to Rule 31 (1) of PPRA Rules 2004, no bidder shall be allowed to alter or modify his bid after the bids have been opened. However the procuring agency may seek and accept clarifications to the bid that do not change the substance of the bid.

During the audit of SCO for the year 2020-21, it was observed that the management awarded six contracts of different development projects to the contractors for Rs 4,371,630,000. These contracts were awarded to the bidders who were not the lowest. SCO management changed the financial bids submitted by these bidders and evaluated them on the basis of changed bids. SCO management termed the process as financial loading. Detail of payment is given in **Annex-E** of this report.

In addition to above, the following irregularities were also observed:

- i. RFP alongwith detailed BoQ, technical proposals and procedure for technical evaluation was not available in the relevant files and were not produced to audit despite several requests.
- ii. The contracts were held irregular as SCO management changed the financial bids in violation of PPRA rules.
- iii. The relevant documents on the basis of which the financial bids were evaluated/changed through financial loading by SCO for award of contracts were also not available in the relevant file and were not produced to audit despite requests and reminders.
- iv. Wrong evaluation was made against Sl. No. 5 of Annex-E by the committee as M/s KEC Engineers quoted rate Rs 1,611 per meter (as per bid) against package-2 of GB and offered discount @ 4% (Rs

1,611 -4% discount = Rs 1,546) but the evaluation committee declared M/s KEC Engineer as 1st lowest by taking discount @ 10% (Rs 1,611 - 10% = Rs 1,450) just to favour the contractor.

- v. The management did not ascertain that the contractors were active tax payers or not at the time of award of contract. For example, M/s. City Link Communications (Sl. No. 4 of Annex-E) was not registered with tax authorities, similarly, M/s. KEC Engineer (Sl. No. 5 of Annex-E) were not on active taxpayers lists (ATL) of both Income Tax & Sales Tax.
- vi. M/s. IOTA Solutions (Pvt.) Ltd was selected against project mentioned at Sl. No.1 of Annex-E for consultancy services at a cost of Rs 5,499,977 for preparation and finalization of detailed RFP, bid documents, technical evaluation criteria & related formalities and review of contract etc. The consultant did not seem to have been involved in the whole process as per record provided to audit and it was therefore considered that the payment made to the consultant had gone waste.

Audit pointed this out to the management and PAO during September & November, 2021. It was replied that the scope of work defined in RFP was same as submitted by firms and was also in accordance with the BoQ of the firms awarded the contract. Neither financial bids nor BoQ/scope of work were changed. The contracts were awarded as per Rule 36 (b) ix which stated to accept “Most advantageous bid”. Moreover, M/s IOTA Solution had completed all milestones as per contract agreement. The RFP along with detailed BoQ and evaluation criteria had already been provided in soft form through e-mail. The documents of technical bids were placed in store at 62 CSB, the same could be provided for verification. It was replied against Sl. No. 5 of Annex-E that KEC financial bid was Rs 1,611 which was reduced to Rs 1,450 after deducting Rs 65 as 4% discount and Rs 96 as reduced ground penetration radar.

The replies of the management were not acceptable as the BoQ/Scope of work was changed and the management subsequently

changed the financial bids of the bidders against the provisions of the PPRA rules. The management and the consultant had not devised concrete and exact BoQs which necessitated the revision of financial bids of the contractors. Audit was of the view that without changing the BoQ/Scope of work the financial bids could not be changed. Further, all the relevant documents/record had not been provided to audit.

DAC in its meeting held on 30th December 2021 directed the management that the relevant record may be got verified from audit till 05th January 2021, otherwise the paras will stand. On the directives of DAC, the SCO management was again provided an opportunity on 4th January to produce record but SCO representatives submitted the same replies as were provided during verification on 22-23rd December, 2021 and did not produce the relevant record.

Audit recommends that responsibility for violation of PPRA rules and non-production of relevant record may be fixed against those held responsible.

(DP Nos. 38,39,40,41,42&66)

7.4.2 Unauthorized deployment of OFC work without provision in PC-I - Rs 476.227 million

According to Planning and Development Division Government of Pakistan letter dated 22nd June, 1980, the ECNEC in its meeting held on 29th December 1974 approved that, if the total estimated cost, as sanctioned increases by a margin of 15 per cent or more, or if any significant variation in the nature or scope of the project has been made, irrespective of whether or not it involves an increased outlay, the approval of the ECNEC/Competent authority shall be obtained in the same manner as in the case of the original scheme without delay. Further, Rule 4 of Public Procurement Rule 2004, stipulates that, procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner.

During the audit of SCO for the year 2020-21, it was observed that the management awarded two contracts to M/s Communicator Globe for deployment of OFC at AJK on different routes for Rs 476,227,000 and paid an amount of Rs 117,673,400 as mobilization advance during the year 2020-21. The expenditure was held unauthorized as these packages/routes were not approved/included in the laying section list of the PC-I of the project. The detail is as under:

(Rs in million)					
Sr No	PDP No	Subject	Description	Total cost (Rs)	Amount released during 2020-21
1	53-22	Unauthorized deployment of OFC work without provision in PC-I and irregular award of work to 3 rd lowest bidder-Rs 324.125 million & loss to national exchequer due to non- charging of GST Rs 8.941 million	Deployment of 185 Km OFC at AJK (Pattika-Muzaffarabad – Baithak-Baloch)	324.125	64.825
2	54-22	Unauthorized deployment of OFC at Dongi-Mirpur & Kaladhab-Rajdhain without provision in PC-I Rs 152.102 million and non-charging of sales tax-Rs 4.196 million	Deployment of 118 Km OFC at AJK (Dongi-Mirpur & Kaladhab– Rajdhani)	152.102	52.848
Total:				476.227	117.673

It was also observed that M/s Communicator Globe was 3rd lowest bidder against Sl. No. 1 with bid value of Rs 1,960 per meter which was evaluated to Rs 1,765 per meter by SCO whereas M/s Fiber Home (Pvt) Ltd was 1st lowest with bid value of Rs 1,349 per meter which was also modified with evaluated bid of Rs 1,780 per meter to declare him as 3rd lowest from 1st lowest without any justification by violating the PPRA Rules 2004.

Audit pointed this out to the management and PAO during September & November, 2021. It was replied that, these sections were part of diagram for deployment of OFC Page 21 of PC-I. Payments were made to contractor by CMA (FWO) after deduction of all applicable taxes through pre-audit system.

The reply of the management was not acceptable as the subject routes were not included in the laying section table of routes given on page 9 of the PC-I. Further, the contract was awarded to the 3rd lowest bidder

against Sl. No. 1 after making changes in the bid value in violation of PPRA rules. As regards deduction of all applicable taxes by CMA, this statement was not correct as the contractor neither provided the GST invoices nor charged the GST in the bills.

DAC decided to place the two issues before PAC for appropriate decision.

Audit recommends that the responsibility for violation PPRA rules, incurrence of expenditure beyond the scope of PC-I & non-charging of GST causing loss to the national exchequer may be fixed besides approval of revised PC-I from the competent forum.

(DP Nos. 53&54)

7.4.3 Irregular procurement without open tenders – Rs 31.940 million

According to Rule 12(1) of Public Procurement Rules, 2004, procurements over five hundred thousand Pakistani Rupees and up to the limit of three million Pakistani Rupees shall be advertised on the Authority’s website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency.

During the audit of SCO for the year 2020-21, it was observed that SCO incurred an expenditure of Rs 31,940,391 on different projects, procurements and works during FY 2020-21 without open tenders, despite the fact that these procurements were above the prescribed limit of open tenders. Furthermore, the expenditure against Sl. No. 1 below was also not depicted in the expenditure statement. The detail is as under:

S.No.	PDP No.	Subject	Description	Amount in Rupees
1	128-22	Irregular expenditure without open tenders – Rs 20.313 million	Different projects	20,313,200
2	133-22	Irregular expenditure without open tenders – Rs 2.474 million	painting of BTS Towers, purchase of items for firefighting equipment’s	2,473,691

			and local purchase of stationery	
3	296-22	Irregular expenditure on procurement of fuel tank – Rs 0.600 million	procurement of fuel tank	600,000
4	306-22	Irregular expenditure without tendering – Rs 8.554 million	Repair of vehicles, generators and petty works	8,553,500
Total:				31,940,391

Audit pointed this out to the management and PAO during September & November, 2021. It was replied against Sl. No. 1, that laying of OFC was not a new project but it was relaying/maintenance of OFC, therefore all tender formalities had been uploaded on PPRA website and newspapers as per rule at later stage. It was replied against Sl. No. 2 that this unit had advertised said procurement opportunities on the PPRA website and called tenders from authorized contractors. It was further replied against Sl. No. 3 that the tender was uploaded on PPRA website on 16th March, 2021 and quotations on the requirements of three different vendors had been received. The management replied against Sl. No. 4 that in each payment, quotations were called from 3 different contractors/dealers.

The reply was not acceptable against Sl. No. 1 because the expenditure was incurred from August 2020 to May 2021 and the tender was published in newspapers on 18th May 2021 at later stage. In case of Sl. No. 2 & 3, only the advertisement was uploaded on PPRA website however the tender procedure was not followed and the expenditure was incurred by obtaining random quotations. The reply against Sl. No. 4 was also not acceptable because the expenditure was incurred without pre-qualification of bidders.

DAC in its meeting held on 30th December 2021 noticed against Sl. No. 1 that the formation was not prepared, therefore, it was directed that comprehensive reply may be furnished to audit. DAC further directed against Sl. No. 3 to take disciplinary action against the person responsible and the expenditure be got regularized from the Board under verification from audit. Moreover, DAC settled the para against Sl. No. 2 & 4 subject

to verification of relevant record from audit. However, no record was produced to audit till finalization of this report.

Audit recommends that responsibility may be fixed against the persons responsible for violation of PPRA rules. It is also recommended that the controls should be strengthened to ensure that the relevant rules are adhered to in letter and spirit.

(DP Nos. 128,133,296&306)

C. Management of Accounts with Commercial Banks

7.4.4 Non-closure of accounts from commercial banks – Rs 28.977 million

According to Finance Division office memo, dated 12th August 2020 and O.M dated 16th July 2021, the cash management and treasury single account rules 2020 are in force since 24th July 2020 with the approval of the Federal Government which inter alia requires closure of existing bank accounts maintained by the Ministries, Divisions, Attached Departments etc and transfer of balances to Central Account No. 1 (Non-Food) maintained in State Bank of Pakistan. Further, the Ministries, Divisions, Attached Departments etc were time and again requested to close the accounts in commercial banks and re-align their existing financial/banking arrangement with the approved legal framework.

During the audit of SCO for the year 2020-21, it was observed that the management neither closed commercial bank accounts nor transferred the balances of Rs 28,976,900 to central account No. 1 (Non-food) maintained in State Bank of Pakistan in violation of the above rules. The detail is as under:

Sl. No.	PDP No.	Name of Unit	Amount not transfer
1	52-22	Headquarters SCO	22,422,539
2	305-22	Sector HQ Mzd, AOTR Mirpur & Mzd, 61-CSB Mzd & 64-CSB Mirpur	6,554,361
Total:			28,976,900

Audit pointed this out to the management and PAO during September & November, 2021. It was replied that, accounts were being

maintained for receipt of pay & allowances and collection/transfer of Revenues. Maintenance of these accounts was essential as per Accounting Procedure prescribed by Army rules/other regulations. Further, the Cash Management Treasury Single Account Policy 2019-20 was to be adopted after due diligence. Therefore, GHQ had formed a Board to study the case and evaluate the exact requirements of Public & Private Bank Accounts for different entities. The policy formed would be implemented by SCO.

The reply was not tenable as the Government had directed to implement the above procedure immediately.

DAC in its meeting held on 30th December 2021 directed that revised reply along with documentary evidence be furnished to audit.

Audit recommends that the matter may be taken up at relevant forums to close the bank accounts and adopt the new treasury rules.

(DP Nos. 52&305)

7.4.5 Non-transfer of balance into Government Account at closing of each month –Rs 473.819 million

State Bank of Pakistan vide letter dated 19th February 2019 gave directions to SCO management regarding terms & conditions for management of Foreign Currency Account, according to which the balance available at the month end after settlement, shall be transferred to the Government Account after converting the funds into Pak Rupees. Further Finance Division (External Finance Wing) had also conveyed its concurrence for observance of rules; regulations and codal formalities as outlined by SBP vide its letter dated 4th March, 2019.

During the audit of SCO for the year 2020-21, it was observed that the management did not adhere to the instructions of SBP regarding transfer of balances of foreign currency bank account at the month-end and retained balances amounting to Rs 473,819,300 during 2020-21 in violation of above stated orders.

Audit pointed this out to the management in September, 2021. It was replied that transfer of revenue into FCF was a regular process that was done with the approval of SCO management. This process was disturbed in last financial year as middle and top management was infected with COVID-19.

The reply was not acceptable as the balances available at the month end after settlement were not transferred to the Government account in violation of Finance Division and SBP instructions.

DAC in its meeting held on 30th December 2021 directed the management that the balances under observation may be got regularized from Ministry of Finance.

Audit recommends that the responsibility for non-transfer of balances into government account at each month end may be fixed under report to audit.

(DP No.58)

7.5 Others

7.5.1 Unauthorized expenditure without adoption of proper procedure - Rs 943.401 million

According to para 53 & 54 of FBA&A Procedure, Operation/Development branch will prepare overall demand of equipment/vehicle/store required to be procured for SCO Projects. Finance Branch will confirm the availability of funds. After being confirmed that funds are available for required stores Ops/Dev branch will prepare the demand and forward it to Assistant Director Ordnance Store (ADOS) specifically deployed for procurement in SCO. On receipt of requirement ADOS will issue Tender within two weeks.

During the audit of SCO for the year 2020-21, it was observed that the management made payments of Rs 943,400,965 during 2020-21 to different contractors against awarded works for completion of development

projects without involving ADOS (Ordnance) branch in violation of FBA&A procedure.

Audit pointed this out to the management and PAO during September & November, 2021. It was replied that, ADOS was responsible for itemized purchase/supply of store within the financial year. All procurement/award of contracts for turnkey projects with implementation time of 2 to 3 years were made through respective branches. Further, ADOS branch had no technical capability to carry out these types of projects. Procurement was made through SCO technical board and consultant.

The reply was not acceptable as the expenditure was made by ignoring the FBA&A procedure which required that the demand for stores may be prepared and forwarded to ADOS specifically deployed for procurement in SCO.

DAC in its meeting held on 30th December 2021 directed the management that necessary amendments in FBA&A procedure may be got approved from the Board of SCO and the expenditure be got regularized from the Board under report to audit.

Audit recommends that responsibility for violation of procedure may be fixed and in future all the procurements be made in accordance with laid down procedure under intimation to audit.

(DP No.60)

7.5.2 Non/short deduction of Sales Tax on Services/WHT on telecom services –Rs 150.191 million

According to Deputy Commissioner Inland Revenue (Provincial Taxes) Mirpur Azad Kashmir letter dated 24th September 2018, Sales Tax on Services (on all types of Telecom Services including Internet Services) @ 19.5% will be deducted. Further, according to Section 236 (b) of Income Tax Ordinance 2001 read with updated withholding income tax rates card the tax will be charged @ 12.5% of the amount of bill or sales

price of internet pre-paid card or prepaid telephone card or sale of units through any electronic medium or whatever form.

During the audit of SCO for the year 2020-21, it was observed that the organization earned revenue on account of DSL/S.Net/GSM services during 2020-21 but sales tax on services/withholding tax @ 19.50% and 12.5% respectively amounting to Rs 54,171,469 was not deducted or short deducted causing loss of Rs 150,190,527 to the national exchequer. The detail is as under:

(Amount in Rs)					
Sl. No.	PDP No.	Subject	Type of services	Name of unit / subscriber	Non/short deduction of sales tax on services
1	49-22	Non/short deduction of sales tax on services on DSL/S.Net services –Rs 68.739 million	Digital Subscriber Line (DSL)/S.Net services	AOTR Muzffarabad& Mirpur	68,738,782
2	51-22	Non recovery of sales tax on telecom/internet services –Rs 6.877 million	Bandwidth, DXX circuit & VPN Services	M/s. HEC, PTCL & Pak Datacom	6,876,680
3	56-22	Loss to national exchequer due to short deduction of sales tax on GSM service –Rs 48.409 million	GSM Service	AOTR Muzffarabad& Mirpur	48,408,618
4	57-22	Loss to national exchequer due to short deduction of WHT from DSL/S.Net subscribers – Rs 26.166 million	Digital Subscriber Line (DSL)/S.Net services	AOTR Muzffarabad& Mirpur	26,166,447
Total:					150,190,527

Audit pointed this out to the management and PAO during September & November, 2021. It was replied against Sl No.1 that in financial year 2019-20, SCO made the necessary arrangements in billing system and started charging sales tax on services @ 19.5% from January 2021 and pursuing payment of sales tax on services against Sl No.2. Regarding Sl No. 3 & 4, it was stated that SCO charged sales tax on services and WHT to retail customers in billing correctly but deposited less amount in AJ&K Council due to some calculation error.

The reply was not acceptable as SCO had not deducted/short deducted sales tax on services/withholding tax on above telecom services in accordance with the rules.

DAC in its meeting held on 30th December 2021 directed the management against Sl. No. 2 to recover the outstanding amount and get it verified from audit and further directed against Sl. No. 1, 3 & 4 to furnish revised reply showing justification for non/short deduction of sales tax on services on GSM/DSL services.

Audit recommends that responsibility may be fixed for non-deduction/short deduction of sales tax on services/withholding tax, recover the amount and get it verified from audit.

(DP Nos.49,51,56&57)

7.5.3 Non-recovery from telecom operators & subscribers – Rs 78.535 million

According to rule 28 of GFR Vol-I, it is the duty of the Departmental Controlling Officer to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the Public Account.

During the audit of SCO for the year 2020-21, it was observed that an amount of Rs 79,896,463 was recoverable from the following operators/ organizations/different telecom subscribers on account of Bandwidth, DPLC, VIM, DSL & Co-location charges during 2020-21:

Sl. No.	PDP No.	Subject	Name of Units / operators	Amount in Rupees
1	55-22	Non- recovery from telecom operators –Rs 16.402 million	M/s. Sky Tel, Tenenor, Warid, CMA (FWO) & Bank Al-Habib	16,402,327
2	61-22	Non- recovery of DPLC charge –Rs 60.959 million	M/s. Telenor &Warid	60,959,217
3	301-22	Non-recovery of outstanding dues against telephone subscribers – Rs 2.535 million	different telephone subscribers	2,534,919
Total:				79,896,463

Audit pointed this out to the management and PAO during September & November, 2021. It was replied that as per provisions of Interconnect Agreement clause 2.6 and 2.7 of schedule 4, operators were required to make annual rental payments in advance. Further rental payment was made on the basis of calendar year as per acquisition of services. As per provisions of Reference Interconnect Offer (RIO), amount highlighted by audit had been billed in Financial Year 2021-22 and recovery was expected in January, 2022.

The reply was not acceptable as clauses 2.6 & 2.7 required that the operator shall pay one year's advance rent to SCO. The pointed out amounts were required to be realized by 15th January, 2021 as advance rent but these amounts were yet to be realized. Further, during verification, an amount of Rs 519,223 against SI No. 1 and Rs 1,309,351 against SI No. 3 were verified. Therefore, the amount of para was reduced to the tune of Rs 78,535,000.

DAC in its meeting held on 30th December 2021 directed the management to recover the outstanding amount and get it verified from audit within 15 days. No further progress was reported till finalization of this report.

Audit recommends that the outstanding amount from different telecom operators may be recovered under verification from audit.

(DP Nos. 55,61&301)

7.5.4 Non-deduction of tax on services – Rs 30.500 million

According to Second Schedule (Taxable Services), Section 3, Sl. No. 6 of Punjab Sale Tax on Services, tax will be charged at the rate of 19.5% on telecommunication services. According to Sr. No 14 of second schedule of Punjab Sales Tax Act 2012, construction services and services provided by contractors of building and similar other works, tax @ 5% without input tax credit/adjustment may be levied. Moreover, according to section 233 of Income Tax Ordinance 2001, the rate of income tax on

brokerage & commission was 12% and 24% for filer and non-filer respectively for the financial year 2020-21.

During the audit of SCO for the year 2020-21, it was observed that the management awarded the contracts of consultancy services to different companies and made payment of commissions to the franchises on provisioning of services for sale of S.Com Cards, SIMs and Telephone Recovery Inspectors (TRIs) for recovery during FY 2020-21 but the contractors/franchises/TRIs did not charge/pay sales tax on services/income tax worth Rs 30,622,222 as Sales Tax on services & Income Tax on commission. The detail is as under:

Sl. No.	PDP No.	Subject	Nature of contract	Amount (Rs)
1	44-22	Non-charging of Punjab Sales Tax on Consultancy Services contract –Rs 1.061million	Upgradation and expansion of existing TDM based backhaul microwave with IP based backhaul microwave network in Gilgit Baltistan	1,060,800
2	48-22	Short deduction of Punjab Sales Tax on Services-Rs 1.929 million	Up gradation of transmission network and replacement of optical fiber cable (OFC) in AJ&K and GB	1,928,640
3	70-22	Non-deduction of Punjab Sales Tax on construction work –Rs 0.259 million	Different work at SCO H/Qtr Rawalpindi	259,457
4	125-22	Non-deduction of Income Tax on payment of commission/rebate to Franchises –Rs 17.772 million.	Franchises commission	17,771,640
5	302-22	Non deduction of income tax – Rs 9.602 million	Franchises / TRIs commission	9,601,685
Total:				30,622,222

Audit pointed this out to the management and PAO during September & November, 2021. It was replied that, SCO is a Federal entity, providing ICT services in AJ&K and GB and all applicable taxes i.e. (Federal, AJ&K and GB) were being deducted. Furthermore, it was added that all payments were made through CMA (FWO) through pre-audit system.

The reply was not acceptable as no documentary evidence in support of reply was provided and SCO did not charge Punjab sales tax on services & income tax on commission. Further, during verification, an

amount of Rs 121,797 against SI No. 5 was verified. Therefore, the amount of para was reduced to the extent of verified amount.

DAC in its meeting held on 30th December 2021 directed the management to write a letter to FBR by 3rd January 2022 seeking clarification on the issue and outcome may be got verified from audit against SI No.1 & 2. DAC further directed against SI No. 3 to 5 above to recover the amount of tax and get it verified from audit.

Audit recommends that amount of tax be recovered and got verified from audit.

(DP Nos. 44,48,70,125&302)

7.5.5 Irregular cash payments to the contractors – Rs 14.558 million

According to para 4.2.9.5 of Accounting Policies and Procedure Manual issued by the Government of Pakistan, payments to contractors should be made through cross cheques.

During the audit of SCO for the year 2020-21, it was observed that one formation (61-CSB Muzaffarabad) was making cash payments to contractors instead of making payment through cheques. During the year 2020-21, an amount of Rs 14,558,200 was paid in cash to contractors on account of laying of OFC & NGMS-III. Furthermore, the expenditure was not depicted in the expenditure statement.

Audit pointed this out to the management and PAO during September & November, 2021. It was replied that amount was paid to contractor on account of purchase of store for laying of OFC in cash as bank transaction for cheque takes long time which further causes delay of payment. Due to recent pandemic of COVID-19, office routine had been affected badly causing delayed and prolonged procedures of banks for cheque clearance. The said OFC was critical for communication in the area of responsibility and moreover, area was prone to heavy snowfall and urgency of work required urgent release of payment to contractors.

The reply was not tenable as the cash payment of such heavy amounts was not justified. In some instances, the payment was received by SCO staff and in other cases the amount had been shown as received by the contractor which was clear violation of the rules. Payment through cash is also a risk to transparency.

DAC in its meeting held on 30th December 2021 directed the management that an inquiry may be conducted to identify the responsible persons and take disciplinary action under verification from audit.

Audit recommends that matter may be investigated at a higher level to fix responsibility under intimation to audit.

(DP No.127)

**MINISTRY OF INFORMATION
TECHNOLOGY &
TELECOMMUNICATION**

CHAPTER-8

TELECOM FOUNDATION (TF)

Chapter 8

Telecom Foundation (TF)

(MoITT)

8.1 Introduction

A) Telecom Foundation was established under Charitable Endowments Act 1890 in November 1991 through S.R.O. No. 1194(I)/91, for the welfare of serving & retired employees and families of Pakistan Telecommunication Corporation (PTC). After the promulgation of Pakistan Telecommunication (Re-Organization) Act, 1996, PTA, NTC & FAB were also included as beneficiaries. The main objectives of the Telecom Foundations are to:

- Run, maintain, promote educational & vocational schools/colleges
- Give stipends & grants to the dependents for educational purposes
- Provide lump sum grant in case of death or injury to the beneficiaries
- Extend & improve medical facilities to the beneficiaries & their dependents.

TF is under the administrative control of Ministry of Information Technology & Telecommunication and governed by a Board of Governors (BoG) with Secretary, MoITT as its Chairperson. It undertakes business & commercial ventures, civil works and other telecom projects to finance welfare and organization expenses along with rental income from real estate, owned by Telecom Foundation.

Telecom Foundation has three subsidiaries i.e. M/s Pak Datacom Ltd, TF Pipes Ltd & Pakistan Communication Industries (Pvt) Ltd. TF has 55% shares in Pak Datacom, 60% shares in TF Pipes and 90% in PCI, respectively. PCI is no more operational and is dormant for the last many years.

B) Comments on Budget and Accounts

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

Table-I Audit Profile of Telecom Foundation (TF)

(Rs in million)

Sr No	Description	Total Nos	Audited	Expenditure audited FY 2020-21	Revenue / Receipts audited FY 2020-21
1	Formations	1	1	270.589	322.302
2	<ul style="list-style-type: none">• Assignment Accounts• SDAs	-	-	-	-
3	Authorities / Autonomous Bodies etc under the PAO	-	-	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

8.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 177.212 million were raised in this report during the current audit of Telecom Foundation (TF). This amount also includes recoveries of Rs 136.875 million as pointed out by audit. Summary of the audit observations classified by nature is as under:

Table-II Overview of Audit Observations**(Rs in million)**

Sr No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities (A+B+C)	40.337
A	HR/Employees related irregularities	-
B	Procurement related irregularities	40.337
C	Management of Accounts with Commercial Banks	-
4	Value for money and service delivery issues	-
5	Others	136.875
	Total:	150.358

8.3 Status of Compliance with PAC Directives

No PAC meeting has been held to date on the audit paras of Telecom Foundation.

AUDIT PARAS

8.4 Irregularities

B. Procurement related irregularities

8.4.1 Irregular execution of project for PTCL – Rs 35.734 million

Telecom Foundation was created under S.R.O No. 1195(I)/91 dated 4th November, 1991 issued by Ministry of Health, Special Education and Social Welfare. As per clause 5(ii) of the S.R.O, the Board may enter into contracts, engagements, arrangements and execute necessary documents.

During the audit of Telecom Foundation for the year 2020-21, it was observed that a tender for laying of Optical Fibre Cable at Hyderabad, against Gigabit Passive Optical Network (GPON) Project Ring-I was won by Telecom Foundation for Rs 29,627,850. PTCL awarded work order to Telecom Foundation on 18th May, 2021. The bill of quantity was revised to the tune of Rs 35,734,211 after issuance of work order but revised work order was not issued by the PTCL. An expenditure of Rs 23,169,256 was incurred on the project by TF management till October, 2021 against which no amount had so far been realized from PTCL. The expenditure was held irregular as the work was done by TF without signing of agreement with PTCL.

Audit pointed this out to the management and PAO in November, 2021. It was replied that the official contract was received in November, 2021 after signing by PTCL. Additional work done, revised purchase order (PO) was approved but not circulated/received. Provisional Acceptance Test (PAT) had been completed and soon after circulation of revised PO, invoices would be issued to PTCL.

The reply was not acceptable as the work was done by Telecom Foundation without signing of agreement with PTCL.

DAC in its meeting held on 31st December 2021 directed the management to recover the amount from PTCL and get it verified from audit.

Audit recommends that the management should ensure a formal agreement before initiation of work in order to safeguard the interests of the organization against any eventuality. Further, invoices may also be raised against work done and recovery be made under report to audit.

(DP Nos. 156)

8.4.2 Award of contract without tendering - Rs 4.603 million

According to para 10(iii) (iv) of revised purchase procedure of TF, the purchases above Rs 100,000 shall be made through purchase committee after calling tenders through press and in case where purchase proposals exceed Rs 500,000, the proposals shall be referred to MD TF H/Qtr for approval before finalization.

During the audit of Telecom Foundation for the year 2020-21, it was observed that a contract worth Rs 4,603,500 for provision of Right of Way (ROW) (re-instatement charges for GPON Work at Hyderabad) was awarded to M/s Wali Dino Panhwar by General Manager Telecom Foundation, Karachi on 3rd June 2021. An amount of Rs 3,222,450 (70% of total amount) was also paid to the contractor on 11th June, 2021. The expenditure was held irregular as the work was done on quotation basis instead of inviting tenders, in contravention of above rules.

Audit pointed this out to the management in November, 2021. It was replied that this activity had to be done without following any protocols at the request of vendor (PTCL). Further, it was lower than the market rates as determined after taking quotations from other companies. The expenditure was within the approved budget.

The reply was not acceptable because the work was awarded on quotation basis instead of inviting tenders against the rules.

DAC in its meeting held on 31st December 2021 directed the management to follow the procurement procedure of TF in letter and spirit and the expenditure be got regularized from Board of Governors under report to audit.

Audit recommends that matter may be investigated to fix responsibility for non-observance of rules. Further, expenditure may also be got regularized from competent forum under report to audit.

(DP Nos. 154)

8.5 Others

8.5.1 Non-recovery of Income Tax refund claim from FBR – Rs 102.016 million

According to section 170(1) (3) 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 and that where the Commissioner is satisfied that tax has been overpaid, the Commissioner shall refund the remainder, if any, to the taxpayer.

During the audit of Telecom Foundation for the year 2020-21, it was observed that the management of Telecom Foundation failed to get the refund claim amounting to Rs 102,016,112 pertaining to the financial years 2017-18, 2018-19 & 2019-20 from FBR.

Audit pointed this out to the management and PAO in November, 2021. It was replied that Telecom Foundation claimed refund through its Tax Consultant which would be produced to audit in due course of time.

The reply was not acceptable as TF failed to get refund of income tax despite lapse of considerable time period.

DAC in its meeting held on 30th December 2021 directed the management to pursue the refund case with FBR vigorously and outcome be shared with audit.

Audit recommends that matter may be taken up with FBR on priority basis for refund of income tax under report to audit.

(DP Nos. 155)

8.5.2 Non-recovery of outstanding amount – Rs 34.859 million

As per (terms of payment) clause-14 of the contracts between NTC and Telecom Foundation, dated 19th May 2016 & 11th April 2016, the payments shall be made after necessary testing/inspection to the contractor (TF). Further, 10% performance security & 2% bid money will be released after successful completion of warranty. Further, there is no rule/policy approved by the Board of Governors to grant loans to its subsidiaries.

During the audit of Telecom Foundation for the year 2020-21, it was observed that the management could not recover the outstanding loan amounting to Rs 29,003,930 (as on 30th June, 2021) granted to its subsidiary, TF Pipes Limited, Islamabad. It was also observed that the management failed to recover the outstanding amount of Rs 6,769,741 from NTC against orange line package-II project and security deposits/bid money amounting to Rs 1,235,000 from different organizations. The detail is as under:

(Amount in Rs)

Sl. No.	PDP No.	Name of organization / clients	Outstanding amount	Amount retained as bid money & security deposits	Total
01	164-22	TF Pipes Ltd	29,003,930	-	29,003,930
02	171-22	NTC	1,272,502	5,497,239	6,769,741
03	177-22	Different organizations	-	1,235,000	1,235,000
Total Rupees			30,276,432	6,732,239	37,008,671

Audit pointed this out to the management in November 2021. In case of recovery from TF Pipes Limited, it was replied that the balance

amount of loan was Rs 26,853,930 as Rs 2,150,000 had already been recovered and verified by audit. It was replied that in case of NTC due to unavoidable circumstances this project had been stopped. It was replied against Sl. No. 3 of the table that the projects were in progress and amount of security deposit would be recovered on completion of the projects.

The reply was not acceptable as Telecom Foundation had not recovered the outstanding amount from TF Pipes Limited, NTC and other organizations since long.

DAC in its meeting held on 31st December 2021 directed the management to recover the remaining amount from TF Pipes Limited. DAC also directed to resolve the matter with NTC within two months and outstanding amount from all organizations be recovered and get it verified from audit.

Audit recommends that matter may be pursued at higher management level to recover the outstanding amount without further delay under report to audit.

(DP Nos. 164,171&177)

**MINISTRY OF INFORMATION
TECHNOLOGY &
TELECOMMUNICATION**

CHAPTER-9

UNIVERSAL SERVICE FUND (USF)

Chapter 9

Universal Service Fund (USF)

(MoITT)

9.1 Introduction

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

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

As per its mandate, this Fund is to be utilized exclusively for providing access to telecommunication services to people in the un-served, under-served, rural and remote areas and other expenditures to be made and incurred by the Federal Government in managing USF. The Federal Government is responsible for the coordination and ensuring timely utilization and release of sums in accordance with the criteria as may be prescribed.

Federal Government in pursuance of Sub-Section (2) of Section 57 of Pakistan Telecommunication (Re-organization) (Amendment) Act, 2006 approved the Universal Service Fund Rules, 2006. In terms of Rule 10 *ibid*, MoITT established a non-profit company limited by guarantee for implementation of USF projects. The company is managed by a Board of Directors headed by Minister of IT as its Chairperson to run its affairs.

B) Comments on Budget and Accounts

- 9.1.1 As per note 11 of the financial statements, amount receivable from PTCL as on 30th June, 2021 was Rs 1,722.184 million. The same amount was receivable at the closing of last financial year (30th June, 2020). It depicted no recovery was made from the PTCL during the current year which showed weak receivable management on the part of USF Company.
- 9.1.2 As per note 17.1.4 of the financial statements, PTCL has filed legal suit in Court of Law for late delivery charges amounting to Rs 1,460.632 million was pending for adjudication at the year end.
- 9.1.3 As per note 4.1 of the financial statements, depreciation was being charged on assets using the straight-line method. Note 5.1 of the financial statements depicted depreciation Rs 17,953,637 on the cost of assets having Right of Use (RoU) with useful life of 3 years. Whereas, the annual depreciation on assets for financial year 2020-21 should be Rs 21,544,365 using the straight-line method (Cost Rs 64,633,094/3 years).
- 9.1.4 As per note 18 of the financial statements, legal and professional charges as on 30th June, 2021, were Rs 42,045,173 as compared to last financial year 2019-20 of Rs 22,358,480. It depicted 88% increase in the expenses.
- 9.1.5 As per note 18 of the financial statements, repairs and maintenance charges as on 30th June, 2021, were Rs 10,903,214 as compared to last financial year 2019-20 of Rs 5,204,257. It depicted 110% increase in the expenses.
- 9.1.6 As per “Statement of Income and Expenditure and Other Comprehensive Income” and note 20 of the financial statements, the technical and monitoring audit fee was Rs 92,964,197 as on 30th June, 2021 as compared to last financial year 2019-20 as Rs 24,268,108. It depicted 283% increase in the expenses.

Table-I Audit Profile of USF**(Rs in million)**

Sr No	Description	Total Nos	Audited	Expenditure audited FY 2020-21	Revenue / Receipts audited FY 2020-21
1	Formations	01	01	5,891.771	-
2	<ul style="list-style-type: none"> • Assignment Accounts • SDAs 	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	01	01	5,891.771	-
4	Foreign Aided Projects (FAP)	-	-	-	-

9.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 69,549.171 million were raised in this report during the current audit of USF. This amount also includes recoveries of Rs 291.290 million as pointed out by audit. Summary of the audit observations classified by nature is as under:

Table-II Overview of Audit Observations**(Rs in million)**

Sr No	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities (A+B+C)	35,750.000
A	HR/Employees related irregularities	-
B	Procurement related irregularities	35,750.000
C	Management of Accounts with Commercial Banks	-
4	Value for money and service delivery issues	32,870.000
5	Others	929.171
Total:		69,549.171

9.3 Status of Compliance with PAC Directives

No PAC meeting has been held to date on the audit paras of USF.

AUDIT PARAS

9.4 Irregularities

A. HR/Employees related irregularities

9.4.1 Irregular promotion and appointment of officers

The HR Manual of USF Company is silent regarding maintenance of seniority list of a cadre or post. Where specific rules of a public/government company remained silent, the Government rules are applicable. As per seniority rule 8(1), for proper administration of a service, cadre or post the appointing authority shall cause a seniority list of the members for the time being of such service, cadre or post to be prepared. Further, Rule 10 of Civil Servants (Appointment, Promotion and Transfer) Rules, 1973 required that initial appointment in basic pay scales 16 & above or equivalent shall be made on the basis of tests and examinations to be conducted by the Federal Public Service Commission of Pakistan.

During the audit of USF for the year 2020-21, it was observed that the management of USF Company promoted four officers out of thirteen presented in 11th Internal Human Resource Committee (IHRC) meeting without maintaining and observing seniority of employees. The criterion of short-listing for promotion, selection, vacant/created seats for promotion and ignoring the employees was not on record. Moreover, five percent (5%) increase in salary was granted by IHRC on promotion instead of initial pay of the new (promoted) level in pursuant to the clause 2.6.2.13 of HR Manual. In addition to this USF management appointed one Accounts Officer and one office boy without sanctioned strength. Further, the appointment of Accounts Officer in BPS-18 was made directly instead of through FPSC.

Audit pointed this out to the management and PAO in November 2021. It was replied that USF Company hired employees on contract basis

initially for the period of three years and subsequently contract was extendable for two years' period on satisfactory performance of employees and with the mutual consent of both the parties. Due to these underlying factors, there was no need to maintain the seniority list. Further, the Accounts Officer was appointed on contract basis with the approval of the Policy Committee.

The reply was not tenable as no criterion was provided for shortlisting, promotion and deferment of employees in the absence of a laid down criteria, the transparency of the process is difficult to ascertain. Moreover, the policy committee had no power to recruit an officer in BPS-18 without referring the case to FPSC, without creation and approval of sanctioned strength.

DAC in its meeting held on 21st December, 2021 directed the management that the matter may be presented before Board of Directors (BoDs) for fixing of headcount (sanctioned strength) with the name of post. However, DAC observed that contractual employees could not be promoted rather they have to sign new contract for higher/new posts. DAC also directed that the matter be placed before the Policy Committee regarding appointments made by USF for appropriate decision and to evolve mechanism for HR management of USF.

Audit recommends that fact finding inquiry may be conducted to probe into the issue of hiring the personnel in violation of rule and without approved sanctioned strength. Further, promotion policy and headcount of the company be presented before the BoD for human resource management.

(DP No.143 & 147)

B. Procurement related irregularities

9.4.2 Irregular award of Projects - Rs 23,554 million

Section 3.4.6.2 of USF's Manual of Operating Procedure states that based on the Net Present Value (NPV) calculation, General Manager Projects & Technical shall recommend a reserve price for each USF

Contract area. The reserve price shall not normally exceed 80% of the total expected capital expense on tangible capital items. Further, section 4.5.1 ibid stipulates, each registration for participation in auctions of USF contracts shall include a demand draft equivalent to 5% of the reserve price, for each lot in which a bidder wishes to participate, to be paid by the bidder to the CEO of the Company at the time of the Registration for Auction.

During the audit of USF for the year 2020-21, it was observed that the company entered into twenty five (25) Service Subsidy Agreement (SSA) contracts with different Service Providers (SPs) for provision of telecommunication services under Optical Fiber Cable (OFC) and Next Generation Broadband Sustainable Development (NG-BSD) projects for subsidy of Rs 23,553,597,811 during financial year 2020-21. The award of contracts to Service Provider was held irregular as approved areas prioritization plan by the Board was not available on record. Moreover, GM Projects & Technical department of USF Company did not recommend reserve prices of mentioned lots on the basis of Net Present Value (NPV) calculation. Demand Drafts equivalent to 5% of reserve price were also not obtained from prospective bidders before registration and auctions. It was also observed that insurance documents of these projects were not available in the file as required in terms of clause 7.02 (c) of Article 7 of SSA.

Audit pointed this out to the management and PAO in November, 2021. It was replied that telecommunication was the fastest growing sector with continuous operator-driven technology upgrades and network/infrastructure expansions. USF bi-yearly collects telecom infrastructure and coverage information of all SPs and updates its database of unserved/underserved areas/populations. This forms the basis of all network design and project targets. Because of ever-changing networks, planning for long term for example 3 years or more, was impractical and would be erroneous. As such USF publishes a generic high level 3 years plan on USF website for consumption of SPs and stakeholders. Moreover, the NPV

clause of Operating Procedure Manuals and Accounting and Financial Manual had been omitted and got approved by Board.

The reply was not acceptable as the award of subsidy of project without calculation of reserve price and financial projection was unjustified. This may lead to highest subsidy to the service provider (contractor) ranging from Rs 10 million to Rs 141 million per site for similar types of projects as already indicated in the report titled “Physical Infrastructure of USF Company” prepared by Directors (Telecom, Wireless and USF) of MoITT to the Secretary of MoITT.

DAC in its meeting held on 21st December, 2021 directed the USF management to identify the reasons for vast variations in the subsidy granted by the USF company to Service Providers for execution of different projects in USF area due to non-fixation of reserve price/limit of maximum subsidy.

Audit recommends that fact finding inquiry may be conducted for not calculating the reserve price/limit of maximum subsidy under report to audit.

(DP No.142)

9.4.3 Irregular award of OFC projects - Rs 12,196 million

USF Company’s Board of Directors in its 75th meeting held on 18th December 2020 (agenda item-10), resolved and approved on the recommendation of Project Oversight Committee, the award of contract to M/s Telecom Engineering and Consultancy House (TEACH) Pvt. Limited to conduct a study for USF’s Next Generation-Optic Fiber Network & Services.

During the audit of USF for the year 2020-21, it was observed that the management of the USF Company signed a contract on 02.03.2021 with M/s TEACH Pvt. Limited to conduct a study at cost of Rs 8,633,900 with a completion period of twelve (12) weeks for USF’s Next Generation

Optic Fiber Network & Services Program. The objective of study was to assess and identify provisions required for allowing all licensed telecom service providers to participate in USF's Next Generation Optic Fiber Network & Services Program. However, the study was not completed to date. Moreover, the budget of consultancy services was neither included in FY 2020-21 nor approved by the BoD.

Simultaneously, USF company designated sixteen (16) lots under Next Generation Optical Fiber Network & Services Program. Seven (07) out of Sixteen (16) (05 to PTCL & 02 to Nayatel) lots of NG-OFN&S to the tune of Rs 12,196 million were awarded during financial year 2020-21. Awarding seven (07) OFC contracts before findings/recommendations by M/s TEACH was not justified. Detail is as under:

Sr. No.	Name of Contract	Service Provider	Signing Date	Subsidy Amount (Rs)
1.	OFC-US-SD-Lot-1	PTCL	18.11.2020	1,310,000,000
2.	OFC-US-SD-Lot-2		18.11.2020	1,756,465,815
3.	OFC-US-SD-Lot-3		25.01.2021	2,100,000,000
4.	OFC-US-PB-Lot-6		28.04.2021	1,165,000,000
5.	OFC FATA-II		25.01.2021	2,559,864,984
Total (A)				8,891,330,799
1.	OFC-US-PB-Lot-4	Nayatel	09.04.2021	1,580,000,000
2.	OFC-US-PB-Lot-5		09.04.2021	1,725,000,000
Total (B)				3,305,000,000
Grand Total (A+B)				12,196,330,799

Audit pointed this out to the management and PAO in November, 2021. It was replied that M/s TEACH was required to submit Study Report within twelve (12) weeks as per contract. The consultant submitted final report on 5th August 2021 which was accepted by USF with a delay of 72 days. Due LD amounting to Rs 863,390 would be deducted in due course of time. The referred study had no direct link with the awarded projects.

The reply was not acceptable as M/s TEACH was contracted to conduct a study for USF's Next Generation-Optic Fiber Network &

Services and before finding and recommendations of the Study by TEACH, awarding of projects under the same programme (USF's Next Generation-Optic Fiber Network & Services) was not justified.

DAC in its meeting held on 21st December, 2021 directed USF management to identify the reasons for vast variations in the subsidy granted by the USF company to Service Providers for execution of different projects. It was further directed that the recommendations of M/s TEACH's Study Report may also be presented to the Board for discussion & appropriate decision and the recovery of due LD may be got verified from Audit.

Audit recommends that matter may be probed for awarding of OFC projects before the receipt of recommendations of M/s TEACH on the subject. Further, the recovery of LD charges may be made under intimation to audit.

(DP No. 140)

9.5 Value for money and service delivery issues

9.5.1 Accumulation of Unused funds – Rs 32,870 million

According to 33-B (2) of Pakistan Telecommunication (Re-organization) Act, 1996 (amended 2006), the USF shall be utilized exclusively for providing access to telecommunication services to people in the un-served, under-served, rural and remote areas and other expenditure to be made and incurred by the Federal Government in managing USF.

During the audit of USF for the year 2020-21, it was observed that an amount of Rs 32,869.938 million remained unutilized as on 30th June, 2021 as per record of Manager Universal Service Fund. USF Company could utilize hardly Rs 36,192 million in last five years due to which the management could not achieve its goals.

Audit pointed this out to the management and PAO in November 2021. It was replied that the company had already targeted to utilize more

than 50% of the fund balance during the FY 2021-22.

The reply was not acceptable as huge amount had piled up with the Fund which could not be utilized by the USF Company to provide the telecommunication services to the people in un-served and under-served areas of Pakistan as envisaged in the Pakistan Telecommunication (Re-organization) Act, 2006 and other relevant rules.

DAC in its meeting held on 21st December, 2021 directed the USF management to expedite the completion of already allocated projects and to identify the new lots/projects for early provision of telecommunication services in the un-served and under-served areas of Pakistan by utilizing the accumulated funds.

Audit recommends that the matter may be probed to highlight the reasons for non-utilization of collected funds. Audit also recommends early utilization of funds amount so that the disparity among different parts of the country in availability of ICT services is reduced.

(PDP No.148)

9.6 Others

9.6.1 Long-standing contingent tax liabilities - Rs 590.651 million

According to Section-49 (1) of Income Tax Ordinance, 2001 income of Federal Government shall be exempt from tax. USF Policy Committee in its meeting held on 31st August, 2016 resolved that legal wing of MoITT would take up the matter with Law Division for advice on forced deduction of Income Tax by FBR.

During the audit of USF for the year 2020-21, it was observed that the Deputy Commissioner Inland Revenue DCIR (Audit), while passing orders for tax years 2015 to 2020, raised the demand of Rs 108,123,425,505 by disallowing the USF Projects Subsidy expense for non-withholding under section 153 & 174 (n) and advertisement expense under section 21 (n) considering capital in nature. DCIR (Enforcement) also issued notice for 2nd quarter of Tax year 2021 and raised the demand

of Rs 590,651,166 as advance tax, by considering receipt of grants to USF company as turnover under section 147. The management of the USF company failed to resolve long-standing tax related issues to-date besides having its law wing, legal consultants, retainer-ship consultancy of tax and payment of consultancy fee of Rs 1,693,342.

Audit pointed this out to the management and PAO in November 2021. It was replied that USF Company had taken all possible steps and legal measures to resolve the tax matters. Company responded to FBR notices with proper justifications.

The reply was not acceptable as the tax matters with FBR were not got resolved.

DAC in its meeting held on 21st December, 2021 directed the management to take up the matter at higher level for early resolution of tax issue.

Audit recommends that strenuous efforts may be made to resolve this long-standing issue.

(DP No.145)

9.6.2 Non-recovery of outstanding USF dues – Rs 291.290 million

According to clause 4.1.2.2 of Long Distance International (LDI) License issued under section 21 of the Pakistan Telecommunication (Re-organization) Act, 1996, the Licensee shall contribute to the Universal Service Fund an amount calculated on the basis of 1.5% of the Licensee's gross revenue from Licensed Services for the most recently completed Financial Year of the Licensee minus inter-operator payments and related PTA/FAB mandated payments. Clause 4.1.2 further stipulates that the licensee shall make this contribution within 120 days of the end of financial year.

During the audit of USF for the year 2020-21, it was observed that the Fund management failed to recover an amount of Rs 295,095,414 on

account of USF contributions against the billing issued to the telecom operators during financial year 2020-21.

Audit pointed this out to the management and PAO in November 2021. It was replied that the recovery from operator was on-going process. An updated recovery status would be shared with audit in due course of time. The recovery was the prime responsibility and mandate of the Pakistan Telecommunication Authority (PTA). However, the recovery of Rs 3,805,879 had been verified by audit. So, the amount of para is reduced to the tune of Rs 291,289,535.

The reply was not acceptable as the USF created under MoITT is the custodian of this money and they were responsible to ensure that all their dues were received in time.

DAC in its meeting held on 21st December, 2021 directed the management to expedite the recovery and get it verified from Audit.

Audit recommends that outstanding amount may be recovered at the earliest under intimation to audit. Further, a mechanism at Universal Service Fund (MoITT) level may be devised to recover and follow up the cases of recovery of USF contribution from the telecom operators.

(DP No. 149)

9.6.3 De-scoping of mandatory mauzas – Rs 47.230 million

According to Article 2.03 (b) of Service Subsidy Agreement (SSA) the USF service provider shall provide the USF services in the USF areas identified in Schedule-C as being mandatory for USF network and USF service coverage in accordance with the network and service roll-out requirements. USF area means the cities, towns, villages or mauzas identified in schedule-C as being mandatory for USF Network.

During the audit of USF for the year 2020-21, it was observed that a contract for provision of basic telephony & internet access services in un-

served mauzas of Dera Bugti Lot 26 was signed on 31st May, 2017 between USF company and M/s PTML (Service Provider) for the period of 24 months (30.05.2019). The planning was made in accordance with projected population of 2016 as mentioned in schedule-C of subsidy service agreement. The service provider was responsible to deploy the telecommunication network as per actual mauzas locations after field survey. Further, another contract to lay 653 kilometres OFC to connect 24 un-connected tehsil headquarters and major town of FATA was signed on 27th June, 2018 between USF Company and M/s PTCL (Service Provider) with completion date of 24 months (26.06.2020). The service provider was responsible to deploy the OFC network as per actual locations after field survey. Both the contractors and USF company failed to provide telecommunication services in certain mandatory mauzas/area which resulted in de-scoping of both the projects amounting to Rs 47.230 million (Rs 31.716 million-Dera Bugti + Rs 15.514 million-FATA) on the request of contractors (M/s PTML and PTCL) despite grant of 360 and 251 days extension to the contractors for completion of the projects.

Audit was of the view that planning was ineffective which resulted in de-scoping of mandatory mauzas/area resulting in non-provision of telecommunication services to the population of these mandatory mauzas.

Audit pointed this out to management and PAO in November 2021. It was replied that because of adverse security situation and restrictions imposed by Law Enforcement Agencies (LEA), during the implementation of the projects were de-scoped, coverage requirement was revised and amendments in the contracts were made accordingly.

The reply was not acceptable as the un-served area remained un-served due to the de-scoping of the projects.

DAC in its meeting held on 21st December, 2021 directed the management to get the record verified from Audit relating to valid reasons of de-scoping.

Audit recommends that the de-scoped area/mauzas may be covered for telecommunication services by the same service provider after revising the contract. Audit also recommends taking into confidence the stakeholders in an area before earmarking on awarding contracts.

(DP No. 150 & 151)

**MINISTRY OF INFORMATION
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CHAPTER-10

Thematic Audit

**Telecom Infrastructure Development in
un-served/under-served areas**

UNIVERSAL SERVICE FUND (USF)

Thematic Audit on Telecom Infrastructure Development in un-served and under-served areas by USF Company

1.1 Introduction

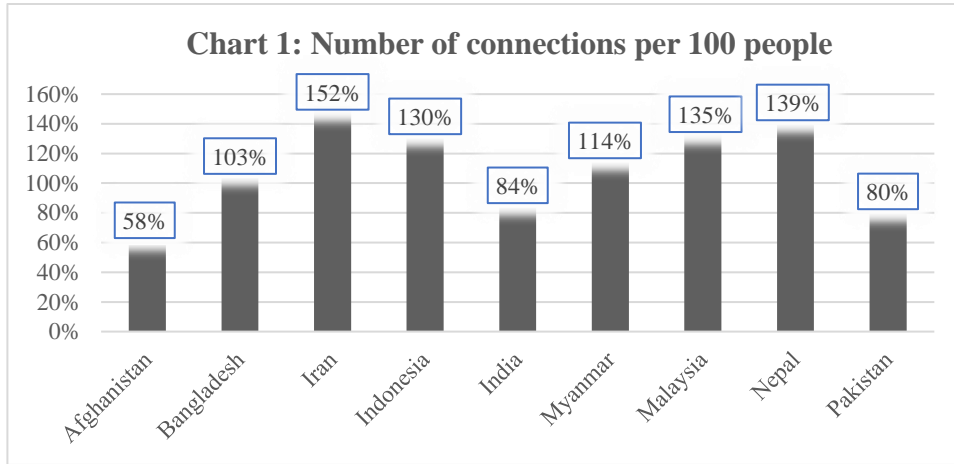
Information Communication Technology (ICT) is critical for achieving progress in economic and social development. Pakistan has witnessed a high growth of ICTs use in the last decade but it is still on the lower side. However, this growth is a little skewed as it is highly concentrated in urban centres. Leaving it in the hand of private sector - which invests more in urban areas - would render the un-served areas remain as such¹³. A lot of effort is needed for even distribution of ICT services for reaping maximum benefits out of its use.

The telecom sector faces numerous challenges in Pakistan requiring important multiple initiatives to harness the potential of the market. Pakistan despite witnessing tremendous growth of telecom sector is still at an early stage of development in telecom penetration. According to the website TheGlobalEconomy.com, in the year 202, Pakistan ranked 118th in the internet use with only 1.1 internet users per 100 people¹⁴. It is behind many Asian countries as depicted in the Chart 1¹⁵.

¹³ According to GSMA intelligence report CAPEX expenditure of Pakistan telecom operators as a percentage of revenue among seven regional countries is the lowest <https://www.gsma.com/asia-pacific/wp-content/uploads/2020/06/24253-Pakistan-report-updates-LR.pdf>

¹⁴ https://www.theglobaleconomy.com/rankings/Internet_subscribers_per_100_people/ (accessed on 1st January, 2022)

¹⁵ [GSMA Report-Pakistan](#): Progressing Towards a fully fledged digital economy & World Development Indicator of World Bank



For the development of telecommunication sector Government established Universal Service Fund in the year 2006. The USF is funded through contributions to be made by the telecom operators @ 1.5% of their adjusted gross revenue. The accumulated funds are to be utilized to execute the telecom projects in un-served & under-served areas to provide telecom services for even distribution of ICT services. In the last decade, there have been some policy initiatives taken by USF to increase tele-density in un-served and under-served areas of Pakistan.

1.2 Background

The main focus of telecom sector is to provide modern telecommunication services to the masses whereas role of the government is to ensure an enabling competitive environment amongst the telecom network operators while safeguarding the interests of the consumers. MOITT issued de-regulation policy for the telecommunication Sector in July 2003. Among other objectives, the policy also aimed at achieving an accelerated expansion of telecommunication infrastructure to extend telecommunication services to un-served and under-served areas. Afterward, MoITT introduced Telecommunication Policy 2015 setting one of the goals as “available and affordable telephony and universal

broadband access to enable electronic and mobile services for covering under served and un-served population”.

The mention of unserved areas in terms of telecommunication services shows that there is realization among the policy makers about the role that the ICT can play in uplift of that areas and creating equal opportunities. That is why the telecom operators were required, under the law, even at the initial stage of telecommunication market to contribute a part of their income to the development of unserved and underserved areas.

The creation of Universal Service Fund and Research & Development Fund was right step in this direction. USF was created in 2006, but how far has it been successful in establishing itself as a harbinger of change in telecommunication sector is yet to be seen. The Company has taken a lot of initiatives. But there are issues in the output that it is generating due to which the true benefits of its establishment are not reaching the intended population.

Pakistan’s economy is moving fast towards digitization with the introduction of digital services including e-commerce, e-customer care, e-banking, mobile banking, and other IT services. The recent lockdowns due to Covid-19 have proven that even the education can be imparted through online teaching. Nevertheless, the prospective growth in telecommunication sector is useless if not backed up by a strenuous effort to take these benefits to those people who do not create enough commercial interests for the telecom operators.

Audit has been highlighting issues related to performance of USF Company from different angles. It was felt that a holistic picture is presented for the benefit of the policy makers on the issue focusing on the entire process.

1.3 Establishing the Audit Theme

1.3.1 Reasons of selection

Thematic audit on “telecom infrastructure development” was planned as the progress in telecom sector is directly linked with the economic development. Moreover, telecommunication policy, 2015 states that universally available, affordable, and quality telecommunication services be provided through open, competitive, and well managed markets and ubiquitously adopted to the benefit of the economy and society. The theme selected by audit carried sufficient materiality. An amount of Rs 32,870 million is lying in the Fund at the end of FY 2020-21.

Another reason for selection was to analyse the progress of telecom projects executed by the USF Company for under-served and un-served areas and to improve telecom services significantly in the rural areas through effective and fair utilization of the Fund. Lastly, but importantly, in Strategic Development Goals No. 9, building resilient infrastructure and fostering innovation, particularly through increasing access to ICT has been focused on the target of universal access to information and communications technology.

1.3.2 Purpose/Objectives

The main purpose of thematic audit is to assess whether telecom infrastructure projects being executed by USF Company are being implemented in an effective and efficient manner and whether the funds allocated for, are utilized economically to achieve the intended objectives. It will further help stakeholders in synchronizing their action plans to their policies. This shall result in better policy interventions at each level. This will promote transparency in policy decisions and accountability in allocation and execution of projects by USF.

1.3.3 Scope

DG Audit, P&TS conducted thematic audit titled “telecom infrastructure development” in October and November 2021 covering the period from 2016-17 to 2020-21. The audit was conducted on a test check basis and focused on accountability and transparency of telecom infrastructure development. The scope of audit remained focused on adherence of USF Company to policy directives and guidelines issued by the MOITT, availability of financial resources and their utilization, award of contracts and their monitoring. Audit team visited USF headquarters in order to collect information related to thematic audit.

The main objectives of the audit were to evaluate and answer the following questions:

- i. What is the level of infrastructure development in the field of telecommunication sector?
- ii. Whether allocation of telecom projects was made through tendering process for award of contract?
- iii. Is there transparency in policy decisions and accountability in allocation & execution of projects by USF?
- iv. Have the projects been completed timely for the benefit of end-users?
- v. What is the impact of the completed projects?

2. Legal Framework Governing the Theme

Federal Government established a Fund with the name “Universal Service Fund” under Section 33A of Pakistan Telecommunication (Amendment) Act, 2006 to spread the benefits of Telecom revolution to all corners of Pakistan. In terms of rule-10 of USF Rules, 2006, MoITT established a non-profit company limited by guarantee (USF Company) for implementation of USF projects. The company is managed by a Board of Directors headed by Minister of IT as its Chairperson to run the affairs of

the company. Following is the list of documents that provides legal framework:

- i. De-Regulation Policy 2003
- ii. Telecommunication Policy 2015
- iii. USF Policy 2005
- iv. Pakistan Telecommunication (Re-organization) Act, 2006
- v. USF Rules 2006
- vi. Manual of Operating Procedures for USF
- vii. Services & Subsidy Agreements
- viii. Public Sector Companies (Corporate Governance) Rules, 2013
- ix. Companies Act, 2017

3. Stakeholders and Governmental Organization identified as Directly or Indirectly Involved

Following stakeholders are directly or indirectly involved in the subject thematic audit:

- i. Ministry of Information Technology & Telecommunication including Fund Management of Universal Service Fund
- ii. Cabinet Division
- iii. Pakistan Telecommunication Authority (PTA)
- iv. Universal Service Fund Company
- v. General Public
- vi. Telecom Operators
- vii. Legislators, think tanks & other policy makers
- viii. Public at large

4. Role of Important Organizations

- **Ministry of Information Technology & Telecommunication**

MoITT, being administrative Ministry, monitors the overall working of USF Company and reviews telecommunication policies from time to

time. It is also responsible to implement Telecommunication Policy of Federal Government.

- **Policy Committee**

Policy Committee approves the annual budget of USF Company from the Fund maintained at MoITT level (USF) to execute the planned projects by the BoD of the USF Company to promote the development of telecommunication services in un-served and under-served areas.

- **Universal Service Fund (USF)**

This special Fund is maintained as Public Account in State Bank of Pakistan. The telecom operators directly deposit their part of contribution to this Public Account No G-12783. The fund is maintained in a non-lapsable Public Accounts at Federal Treasury Office Islamabad. The funding requirement of the USF Company is met from this Public Account.

- **Pakistan Telecommunication Authority (PTA)**

PTA issues demand notes to the telecom operators for deposit of USF Contribution @ 1.5% of their adjusted gross revenue in the Fund (USF) maintained in MoITT. It also ensures compliance of license conditions of telecom operators being regulator of telecom industry and implements de-regulation policy issued by the Government of Pakistan.

- **USF Company**

USF Company implements the USF projects to spread the benefits of the telecom revolution to all corners of Pakistan and promotes the development of telecommunication services in un-served and under-served areas throughout the length and breadth of the country.

5. USF's Financials

The Board of Directors of USF initially approves budget for different projects to be executed by USF Company and the same is finally approved by the Policy Committee under the Chairmanship of the Minister of Information Technology & Telecommunication. After the approval and allocation of budget, the USF Company initiates the process of tendering for award of work and subsequent disbursement of payment (subsidy) to Service Providers (SPs) on the basis of agreed terms and conditions. It has to oversee that the projects are not only completed but also properly operationalizes so that their benefits reach the intended users.

6. Field Audit Activity

6.1 Methodology

Thematic Audit of Telecommunication Infrastructure Development was carried out by collecting the data from various sources including publicly available information, PTA and USF websites and databases, published articles and information compiled by the international organizations. Audit team also corresponded and held meeting with USF management and fund administrators.

Field-work was completed in October, 2021. Following documents were consulted during the audit include:

- a. Audited financial statements and annual reports
- b. Agenda and minutes of Board Meetings
- c. Tender advertisement, Request for Application (RFA), Service and Subsidy Agreement (SSA) and technical and financial evaluation reports
- d. Technical Auditors contracts and technical auditor's reports
- e. Project files, monitoring files, court cases and international studies.
- f. PTA report on utilization of optical fibre cable laid under USF OFC program.

The Audit team also consulted permanent and planning files, past annual audit reports with respect to audit paras of USF & Company. The planning process involved gaining a thorough understanding of various factors that influence the Telecom Infrastructure Development of USF.

6.2 Audit Analysis

6.2.1 Review of Internal Controls

The company has developed its policies and procedures to run its day-to-day affairs and allocation of projects to the designated Service Providers (SP). The company financial accounts are audited by the chartered accountants as well as by the office of the Auditor General of Pakistan.

During the audit it was observed that many completed projects of laying OFC had minimal or even zero utilization¹⁶ which showed weak mechanism of identifying, allocating and monitoring of projects. A number of instances of weakness of internal controls were observed. The management of USF Company did not prepare estimated cost & financial projections while allocating the projects to the service providers. This resulted in huge difference in the subsidy claimed by the contractors for same type of projects ranging from Rs 10 million to Rs 141 million per site for the same type of projects. The same issue was highlighted by the Directors (Wireless, Telecom & USF) of MoITT in their audit report titled “Physical Infrastructure of USF Company”¹⁷.

Audit had been pointing out instances where the USF Company extended undue favour to the Service Providers by invoking force majeure clause which resulted in non-recovery of LD charges worth millions of rupees from the contractors. It was also observed that certain projects of

¹⁶ PTA Report dated 5th January, 2021

¹⁷ [Report of MoIT](#) & Annual Audit Reports of AGP for the years 2014-15, 2016-17 & 2017-18

USF were delayed and not completed in time and de-scoping or re-scoping of the projects was done as envisaged by the legislators and policy makers.

6.2.2 Critical Review

Despite reported increases in penetration, of both fixed and mobile services in Pakistan, particularly in the last 5 years, the development has been mainly concentrated in cities and larger towns. Audit observed that little progress had been made by the operators in providing telecom services in rural areas. There was considerable evidence internationally that the availability of adequate telecommunications service is a necessary prerequisite for development, facilitating economic development, efficient delivery of social services (education, health, etc.) and social cohesion.

Even with six cellular and more than twenty Wireless Local Loop (WLL) operators, the progress of telecommunications services in rural areas was slow. USF needs to work as a catalyst to motivate all licensed operators to penetrate right into the heart of un-served and under-served areas.

USF is expected to shift the focus of the telecom operators from urban towards rural population coverage. Universal Service Fund (USF) Policy, 2005 set nation-wide targets for USF which included 85% of country population to have telecom coverage, tele-density of 5% in rural areas and 1% penetration of broadband nationwide by the end of year 2010 and 95% of country population to have telecom coverage by the end of year 2015. Whereas, out of target of 1.7 million (1% of population in 2009-10) the USF Company could only achieve 0.9 million broadband subscribers at the end of year 2009-2010 that was far behind the target¹⁸. The overall tele-density before USF was 44.06 % whereas at present it reached up to 85.30% only. There was growth of only 41.24 points in last 13 years even including all telecom operators (Cellular, FLL and WLL) expansion and growth. Moreover, the USF Company had also utilized the

¹⁸ [Data from presentation](#) of Member Telecom of MoIT-PTA Performance Indicator Report

funds of Rs 61,659 million for infrastructure development for provision of telecom services to the people in un-served and under-served area of Pakistan¹⁹.

The broadband penetration in Pakistan has increased over the last five (5) years from 8.9% in 2015 to 39.1% in 2020. The increase was primarily led by a surge in Next Generation Mobile Services (NGMS) subscribers after the auctions of 3G and 4G spectrum licenses in 2014. It is further believed that this is not nearly enough as the economy needs to be digitized especially after Covid-19 scenario. The overall broadband data usage has increased by more than 20% in last five (5) years as well, showing potential of a digital economy in the country.

The mobile internet penetration in Pakistan lagged behind most regional economies. There was a significant gap in the usage of mobile internet largely due to the coverage gap. More than 20% of the population does not have access to the internet at all²⁰.

6.2.3 Significant Audit Observations

6.2.3.1 Billing and collection of USF Contribution

During this study, it was observed that there is dichotomy in authority regarding billing and collection of dues from the operators. As per procedure in vogue, PTA is responsible for billing and enforcement of collection. However, the custodian of the Fund is MoITT through a Fund Manager. As a result of this anomaly, a lot of funds are received late. On 30th June, 2021, an amount of Rs 723,088,781 was due from the operators. Moreover, the reconciliation between PTA and USF does not take place on regular basis. As a result, there is difference in figures reported by PTA and USF in their statements.

¹⁹ [Teledensity Report of PTA 2020-21](#)

²⁰ [SBP Report by its special section](#) on “Covid 19 and the Need to Boost Digital Connectivity in Pakistan”.

6.2.3.2 Unspent balance/budget

The draft financial statements of the Universal Service Fund (USF) as on 30th June 2021 depict that USF (MoITT) had an unspent balance of Rs 32,870 million on account of USF contribution. As per USF Policy, 95% of the population was to have coverage of telecommunication networks by the end of year 2015. However, the organization has been unable to meet that target even after seven years. Whereas, Pakistan has 85.3% tele-density in the year 2020-21²¹. Had the funds been utilized for their intended purpose the target could have been achieved.

USF company's Board of Directors in its 72nd meeting held on 29th June 2020 approved a budget of Rs 11,376.575 million (Development Budget Rs 10,883.065 million + Operational Budget Rs 493.510 million) which was subsequently approved by the Policy Committee on 27th July 2020. The USF company could utilize only 50% of the approved development budget (Rs 5,428.896 million). The General and Administration Expenses of the USF Company have increased by 220% from Rs 198.969 million in 2014 to Rs 437.602 million in financial year 2021 whereas average number of employees in last eight (08) years were eighty-six (86). However, despite these resources the full budget utilization has remained a challenge throughout the existence of USF Company.

Non-utilization of telecom infrastructure development budget adversely affected the overall provision of telecom services to the people of Pakistan through USF.

6.2.3.3 Issues in Contracting

USF company entered into twenty-five (25) Service Subsidy Agreements valuing more than Rs 23 billion with different Service Providers during financial year 2020-21 without calculation of Net Present

²¹ Teledensity Report of PTA 2021

Value (NPV), Reserve Price (maximum subsidy to be granted) and without getting demand drafts equivalent to five percent of the reserve price. Further, in preceding years the projects were being awarded without fixing reserve price (maximum subsidy to be awarded) by USF Company which resulted in heavy difference and demand of subsidy by the Service Providers (Contractors) ranging from Rs 10 million to Rs 141 million per site for similar type of project. The similar issue has also been highlighted in the report titled “Physical Infrastructure of USF Company” prepared by Directors (Telecom, Wireless and USF) of MoITT for the Secretary of MoITT.

USF company entered into a contract on 02.03.2021 with M/s TEACH Pvt. Limited to conduct a study for USF’s Next Generation Optical Fiber Network & Services Program. The objective of study was to assess and identify provisions required for allowing all licensed telecom service providers to participate in USF’s Next Generation Optical Fiber Network & Services Program. Simultaneously, USF company designated sixteen (16) lots under Next Generation Optical Fiber Network & Services Program. Seven (07) out of Sixteen (16) lots of NG-OFN&S were awarded (05 to PTCL & 02 to Nayatel) during financial year 2020-21. Therefore, awarding of seven (7) OFC contracts before findings and recommendations by M/s TEACH was not justifiable.

6.2.3.4 Delay & Non-completion of Projects

The contractors were bound to start working on the projects and to complete them within contracted time. But instances were noticed, where projects were delayed from one year to seven years in Mansehra, Larkana, Chitral, Hazara Telecom Region (HTR), Southern Telecom Region (STR), Rawalpindi Telecom Region (RTR) and Northern Telecom Region (NTR). Even one contractor (M/s WorldCall) did not provide the services as per terms of the agreement in seventeen districts²².

²² Annual Audit Reports for the years 2016-17(8.4.1 & 8.5.2), 2017-18 (7.5.3) & 2019-20 (9.5.2)

6.2.3.5 Conflict of Interest in Composition of BoDs

According to Rule 3(1) of Public Sector Companies (Corporate Governance) Rules, 2013, the board shall have at least one-third of its total members as independent directors. According to Rule-2(d) ibid “Independent Director” means a Non-Executive Director who is not in the service of Pakistan or of any statutory body or anybody or institution owned or controlled by the Government and who is not connected or does not have any other relationship, whether pecuniary or otherwise, with the Public Sector Company, its associated companies, subsidiaries, holding company or directors.

Audit observed that the Board composition did not consist of independent members in violation of the above. Out of a total of nine members, five members of the board were ex-officio and three had direct interest in the USF Company being nominees of operators/service providers.

6.2.3.6 Ineffective Monitoring of Projects

Instances were observed wherein the USF company management entered into three services and subsidy agreements with M/s PTCL for provision of telecom services in un-served/under-served areas of KPK and Balochistan. The Service Provider (PTCL) failed to complete the projects within stipulated time. Further, the management of USF company could not recover an amount of Rs 1,095.962 million from PTCL on account of liquidated damages (LD) and de-scoping charges. This showed that the company lack effective monitoring mechanism to ensure that its Service Providers remained on track for timely completion of the projects.

6.2.3.7 Geographical coverage of USF Activities

According to USF Policy 2005 MoITT was required to develop the method for prioritising qualifying geographic zones, giving priority to rural, remote, and small town and urban areas, where they are currently un-

served or under-served. Areas falling under existing operators' roll-out obligations shall be excluded from USF lots/projects.

Contrarily, the above function was being carried out by the USF Company itself. For identification of the area as un-served/under-served for execution of telecom projects, the Company collects data from SUPARCO, Survey of Pakistan, Pakistan Census Organization, Telecom Operators and hired consultants. USF Company prepares lots of the area and submits it to the Board for approval. Once the lot is approved by the Board, the Company awards the contracts to the Service Provider through tendering process.

Province wise detail of expenditure²³

(Rs in million)			
Area/Province	Contracted Subsidy	Disbursed Subsidy	No. of Projects
All Pakistan (covering all Provinces)	948	297	7
ICT-Islamabad	1,018	934	7
Punjab	18,908	9,719	29
Sindh	10,330	6,287	20
KPK	17,415	12,811	19
Balochistan	41,774	31,612	31

6.2.3.8 Contribution and jurisdiction of USF Company in AJK and GB

Pakistan Telecommunication Authority issued separate demand notes to telecom operators based on their gross revenue generated in AJK & GB for USF Contribution @ 1.5% for AJK & GB. USF Contribution for AJK & GB is distributed between their respective Councils as 77% and 23% respectively. The Fund maintained at MoITT level had transferred Rs 195.124 million to GB as per share whereas the funds to AJK Council were not transferred as it was not functional.

²³ [Data provided](#) by USF Company

USF Company does not have jurisdiction to execute projects in AJK & GB as the respective governments have established their own mechanisms for this purpose. However, these mechanisms are yet to initiate their functioning resulting in non-execution of any telecommunication project relating to un-served and under-served areas in AJK & GB.

7. Recommendations

Audit has the following recommendations:

- i. To ensure receipt of accurate and due share of USF contribution, the duality of responsibility for billing, collection and management (between PTA and USF) should be concentrated in one organization. There has to be an enforcement mechanism to implement the relevant license conditions of respective telecom operators.
- ii. USF needs to be more proactive for effective utilization of unspent amount and collection of due USF contribution through USF company to increase the tele-density in Pakistan and provision of telecommunication services in designated areas as its prime objective.
- iii. USF Company should prepare prioritization plan and fix reserve price (maximum subsidy to be awarded) before auction of any telecom project for subsidy. This will ensure fair subsidy to the Service Providers (SP).
- iv. Ministry of Information Technology & Telecommunication being administrative ministry should recommend change in the composition of Board of Directors of USF Company to make it more vibrant, independent and free from any conflict of interest in compliance with Corporate Governance Rules, 2013.
- v. USF Company should prepare a comprehensive and realistic mechanism for monitoring and technical audit of USF subsidized projects

to avoid delay in completion of projects and de-scoping or re-scoping of the projects. The rules should be more stringent to ensure the provision of services against the projects installed with the government subsidy.

8. Conclusion

The mechanism for planning, awarding and monitoring of telecommunication subsidized projects was not effectively prioritised of areas for early provision of services, delayed completion and frequent de-scoping/re-scoping of the projects. Although policy statements, rules, regulations, license conditions and other instructions received from Government of Pakistan (MoITT) were available in the organization, the implementation of the same was very weak.

9. Acknowledgment

The Audit acknowledges the cooperation extended by the Chief Executive Officer (CEO), Chief Finance Officer (CFO), other senior management and officials of MoITT, USF and USF Company who facilitated the flow of information throughout the field audit activity.

ANNEXURES

ANNEXURE-A

MFDAC PARAS

Sr No	PDP No	Subject	Amount (Rs in million)
1.	PAKISTAN TELECOMMUNICATION AUTHORITY (PTA)		
1.	221-22	Un-authorized regularization and promotion of officer	0.623
2.	223-22	Undue favour in promotion due to unrealistic criteria of DPC	0.000
3.	224-22	Loss due to less claim of Annual Radio Frequency Spectrum Fee	203.268
4.	226-22	Unjustified expenditure incurred without budget allocation	14.403
5.	229-22	Loss to national exchequer due to unjustified retention of license renewal fee	9.518
6.	230-22	Loss due to improper calculation of interest on bank balances	5.416
7.	231-22	Overpayment to building contractor	1.695
8.	232-22	Un-justified promotion and payment of pay & allowances/perks	31.191
9.	233-22	Un-authorized Payment of Pay & Allowances to AD Law	5.928
10.	234-22	Un-justified expenditure incurred on daily wages staff over & above the vacant posts	9.249
11.	235-22	Un-justified retention and refund of Application Processing Fee	1.483
12.	236-22	Undue favour to licensees regarding dishonoured cheques	1.711
13.	237-22	Un-authorized utilization of spectrum without renewal of license by SCO	0.000
14.	238-22	Non issuance of show cause notice to NTC for un-authorized provision of GSM services	0.000

15.	239-22	Unjustified payment of pay & allowances to deputationists	1.900
16.	241-22	Short transfer of surplus funds to Federal Consolidated Fund	2,072.298
17.	243-22	Un-justified payment of pay and allowances and EOS benefits	1.320
18.	244-22	Un-authorized payment of pay and allowances / perks	22.833
19.	245-22	Overpayment of Leave Encashment, Eid & Proficiency Allowances	3.524
20.	248-22	Unjustified payment of Proficiency Allowance to Consultants	1.809
21.	251-22	Un-justified share payment of lunch for MTOs	3.467
22.	253-22	Un-authorized payment of family medical charges	2.390
23.	254-22	Un-justified revision and payment of House Rent Allowance	49.708
24.	255-22	Un-justified grant of Car loan Rs. 3.042 million and loss of interest Rs.0.366 Million	0.366
25.	258-22	Short receipt of Mark-up on License Renewal Fee	857.203
26.	260-22	Un-justified grant of telephone charges to retired employees	0.648
Total			3,301.951

Sr No	PDP No	Subject	Amount (Rs in million)
2.	FREQUENCY ALLOCATION BOARD (FAB)		
1.	210-22	Unauthorized payment of legal fee	6.221
2.	211-22	Unauthorized payment of pay & allowances	1.800
3.	215-22	Non-allotment of vacant quarters resulted in loss	1.282
4.	216-22	Non-utilization of Public Assets	-

5.	217-22	Excess deduction of withholding tax on profit of Gratuity Account	0.772
Total			10.075

Sr No	PDP No	Subject	Amount (Rs in million)
3.	NATIONAL RADIO & TELECOMMUNICATION CORPORATION (PVT.) LIMITED (NRTC)		
1.	197-22	Non-compliance with Public Sector Companies (Corporate Governance) Rules 2013	0.000
2.	199-22	Deduction of withholding tax by the contractors due to late obtaining of exemption certificate from FBR	104.623
3.	200-22	Non-receipt of Stores worth Rs 1.157 million and non-deduction of LD Charges	0.341
4.	201-22	Non-receipt against rejected Stores	18.422
5.	202-22	Non-receipt of stores worth Rs 1.886 (USD 11,480) and non-deduction of LD Charges	0.189
6.	204-22	Non-adjustment / recover of temporary advances	6.354
7.	205-22	Non-adjustment / recover of TA / DA Advances	8.959
Total			138.888

Sr No	PDP No	Subject	Amount (Rs in million)
4.	ELECTRONIC CERTIFICATION ACCREDITATION COUNCIL (ECAC)		
1.	75-22	Unauthorized retention of savings	1.131
2.	76-22	Non-finalization of regulations / hiring of legal consultant including un-authorized release of payment and non-deduction of	3.300

		liquidated damages	
3.	79-22	Non approval of chart of accounts and accounting procedure from Auditor General of Pakistan / CGA	0.000
Total			4.431

Sr No	PDP No	Subject	Amount (Rs in million)
5.	IGNITE NATIONAL TECHNOLOGY FUND COMPANY		
1.	263-22	Un-authorized payment of pay and management fee	39.213
2.	265-22	Un-authorized payment of 15% additional benefits	26.307
3.	266-22	Un-authorize payment of management overhead expense to M/s LMKT	117.110
4.	267-22	Double payment of salary to project director	2.00
5.	269-22	Non realization of Revenue by NIC Quetta	12.461
6.	271-22	Double payment of salary to M/s PMCL (Jazz)	3.174
7.	273-22	Un-authorized payment of remunerations to Board members	7.530
8.	275-22	Un-authorize payment of programme management content and methodology fee to M/s LUMS	26.025
9.	279-22	Irregular expenditure due to non-achievement of objectives	172.318
10.	281-22	Un-authorized expenditure under head utility	30.794
11.	282-22	Irregular drawl of funds from NICs Bank Accounts	14.609
12.	283-22	Non-capitalization of expenditure	606.576
13.	284-22	Un-Justified re-appropriation of savings without additional work	58.820

14.	285-22	Non deduction of income tax from salaries	6.139
15.	286-22	Un-authorized payment of increments	7.856
16.	287-22	Doubtful expenditure incurred during Covid—19 lockdown	2.993
17.	289-22	Irregular charging of previous expenditure	10.592
18.	290-22	Irregular payment of gratuity Rs 12.268 million and non- investment in trust funds – Rs 75.964 million	88.232
19.	291-22	Irregular payment of Additional Allowance	4.698
20.	292-22	Weak internal control for selection of start-ups	0.000
21.	294-22	Non-auction/disposal of unserviceable Laptops	0.000
Total			1237.447

Sr No	PDP No	Subject	Amount (Rs in million)
6.	NATIONAL TELECOMMUNICATION CORPORATION (NTC)		
1.	02-22	Irregular expenditure on repair & maintenance of buildings in violation of PPRA Rules	2.100
2.	03-22	Irregular payment of conveyance allowance	0.125
3.	04-22	Irregular payments to security agency without observance of agreement conditions and non-imposition of penalty	1.295
4.	05-22	Overstated of NTC revenue accounts	25.534
5.	07-22	Non-provision of record for realization of telephone set cost	1.045
6.	08-22	Irregular payments of Sindh Sale Tax by the contractors engaged for telecom services	0.419

7.	09-22	Non-recovery of standard rent from unauthorized occupants / retired officers	0.226
8.	10-22	Non-existence of internal control on Fixed Assets Management	2.382
9.	11-22	Irregular and uneconomical expenditure on procurements of Generators/Laptop in violation of PPRA Rules and Non maintenance of Stock record of procured items	1.601
10.	12-22	Irregular and uneconomical expenditure on procurements of motorcycles in violation of PPRA Rules	0.877
11.	13-22	Irregular and uneconomical expenditure on building works in violation of PPRA Rules	0.583
12.	16-22	Irregular and unauthorized expenditure	1.029
13.	18-22	Non-completion of work against pre-deposit work	36.941
14.	20-22	Unjustified expenditure on hiring the contractor services for laying underground cable	0.592
15.	21-22	Non-deduction of stamp duty on agreements	0.388
16.	23-22	Unauthorized expenditure on execution of development works	0.655
17.	29-22	Non-recovery of rent & electricity charges from tenant M/s Multinet	10.826
18.	30-22	Loss of rent due to unjustified favour of tenant	0.867
19.	32-22	Un-justified expenditure incurred on janitorial services	2.397
20.	33-22	Wasteful expenditure incurred on sui gas bills	1.093
21.	34-22	Non-receipt of paid withholding tax challans from lessee	11.766
22.	35-22	Unauthorized deputation in NTC from PTCL and payments	0.366

23.	36-22	Irregular expenditure on payment of house requisition without sanction	4.111
24.	37-22	Irregular expenditure on payment of inadmissible house requisition	0.216
25.	82-22	Un-authorized expenditure on account of payment to State Life Corporation	7.519
26.	83-22	Irregular Payment / undue favour by granting interim extensions and payment	3.804
27.	84-22	Irregular refund of liquidated damages	9.785
28.	86-22	Unauthorized agreement for outsourcing of HR and Payment	7.857
29.	89-22	Non-conducting of foreign training	17.549
30.	90-22	Irregular expenditure without revision of PC-I	265.132
31.	91-22	Unauthorized claim of PST input	2.777
32.	92-22	Non-recovery of penalty due to abnormal delay in completion of the project	60.234
33.	94-22	Unauthorized award of contract	8.271
34.	95-22	Unauthorized expenditure on building works	2.825
35.	97-22	Unauthorized termination of international traffic	233.293
36.	100-22	Irregular / wasteful payment to Asia Pacific Telecommunity	2.478
37.	101-22	Unauthorized retention of withheld GST and non-claiming of input	82.725
38.	103-22	Non-imposition / recovery of penalty on delayed receipt of revenue	3.213
39.	104-22	Delayed deposit of cheques and loss of interest on delay deposits	367.232
40.	107-22	Blockage of public money due to excessive procurement of stores	33.658
41.	109-22	Unauthorized provision of support staff, unwise decision of the Board resulted financial burden on NTC – Rs 1.082 million	1.082

42.	110-22	Improper / non-functioning of Internal Audit Wing	5.706
43.	111-22	Non-implementation posting transfer / rotation policy, non-rationalization of Staff and non-existence of employees grievances mechanism	0.000
44.	112-22	Non-holding of trainings for capacity building	0.000
45.	113-22	Irrational sanctioned and working strength	0.000
46.	117-22	Non-recovery of medical advance	0.200
47.	118-22	Non-recovery of temporary advance	0.250
48.	119-22	Irregular renting out of NTC building without tender	18.357
49.	120-22	Loss due to irregular hiring of building for NTC	0.104
50.	122-22	Irregular payment of premium to state life policies	0.301
51.	123-22	Irregular payment of house requisition without ownership documents	0.449
52.	311-22	Unauthorized payment on provision of FWT services	0.303
53.	312-22	Unauthorized retention of KPK sales tax	0.618
54.	313-22	Irregular expenditure on security services	0.803
55.	314-22	Blockage of public money due to non-auction of unserviceable store	3.180
56.	315-22	Short receipt of advance against pre-deposit works	0.354
57.	316-22	Irregular expenditure on uniform and washing allowance	1.831
58.	317-22	Irregular payment to panel hospital	3.701
59.	318-22	Irregular expenditure on payment of house requisition without sanction	1.445

60.	319-22	Irregular expenditure due to unjustified extension in contract with M/s Naytal	1.397
61.	321-22	Unauthorized surrender of land and revised agreement on existing rates causing loss	1.394
62.	322-22	Unauthorized sub-letting and transfer of lease rights	0.924
63.	323-22	Non-payment of income tax on rent of properties	0.986
64.	324-22	Possession of land in excess of vesting orders and non-transfer of right of land to NTC	0.000
65.	325-22	Irregular expenditure on repair & maintenance without tenders	3.099
66.	327-22	Irregular procurement and favour to contractor	1.067
67.	329-22	Non-recovery from Capital Development Authority and un-justified payment of damage charges	4.760
68.	330-22	Unauthorized provision of FWT services through M/s PTCL	0.000
69.	331-22	Non-vacation of quarter and non-recovery of standard rent from unauthorized occupant	0.210
70.	332-22	Non-vacation of co-location facility resulting non-realization	0.329
Total			1,268.636

Sl. No.	DP No	Subject	Amount (Rs in million)
7.	SPECIAL COMMUNICATIONS ORGANIZATION (SCO)		
1.	43-22	Unauthorized award of contract to the 2nd lowest bidder	3.759
2.	45-22	Irregular expenditure of pay and allowances & house requisition to the staff of CMA	22.586
3.	46-22	Non deposit of balance into treasury at the close of financial year	1.015

4.	47-22	Loss of revenue due to conversion of foreign remittances on ordinary rates	1.930
5.	50-22	Unauthorized business with international operators with negative balances	6.380
6.	63-22	Extravagant expenditure on procurement of maintenance free batteries	42.63
7.	64-22	Irregular procurement from Non-Active Taxpayer	2.430
8.	65-22	Blockage of public money due to excessive procurement of Store worth	27.183
9.	67-22	Defective contract for procurement of vehicles of Rs 60.726 million and non-	3.643
10.	68-22	Non production of auditable record for the financial year 2020-21	0.000
11.	69-22	Irregular procurement in non-transparent manners	2.322
12.	71-22	Unjustified expenditure on POL	17.693
13.	73-22	Irregular appointment of Project Manager &	1.500
14.	124-22	Loss to SCO due to allowing full amount of	74.048
15.	126-22	Non deduction of educational Cess on Income Tax	0.865
16.	131-22	Short realization of revenue on account of sale of SCO scratch cards	1,367.926
17.	132-22	Non utilization of land on commercial basis to enhance SCO revenue	84.000
18.	134-22	Unjustified / irregular advance payment of commission on sale of scratch cards & S-	38.464
19.	135-22	Loss to SCO due to allowing full amount of scratch cards & S-loads to subscribers	38.464
20.	136-22	Irregular issuance of free scratch cards in lieu of incentive to Franchises	1.546
21.	295-22	Non-achievement of revenue target and short fall	355.087
22.	297-22	Unauthorized award of incentive to Telephone Revenue Inspector (TRI)	0.247

23.	300-22	Irregular / unjustified transfer of Income Tax and GST	1.419
24.	304-22	Utilization of funds from previous year's budget grant	6.778
25.	307-22	Irregular appointment of staff on contractual basis	9.804
26.	308-22	Difference between sale of S-Load and revenue realized	0.393
27.	309-22	Irregular / misclassified expenditure on local purchase of telephone sets 492,804-	0.493
Total			2,112.605

Sr No	PDP No	Subject	Amount (Rs in million)
8.	TELECOM FOUNDATION (TF)		
1.	152-22	Heavy loss in operational activities to Telecom Foundation	101.969
2.	153-22	Short-realization of rent from Drug Regulatory Authority of Pakistan	22.364
3.	157-22	Non-receipt of security deposit from M/s. Ignite	3.219
4.	158-22	Unauthorized deduction of withholding tax by the tenants	30.112
5.	159-22	Loss to Telecom Foundation in operations of schools & training sections	54.092
6.	160-22	Loss due to short realization of rent from tenant at TF Complex	32.046
7.	161-22	Loss due to non-renting out of vacant space at TF Complex	9.602
8.	163-22	Irregular appointments of General Managers regional units in non-transparent manners	1.144
9.	165-22	Non-recovery of outstanding dues on account of TF Cafeteria	0.931
10.	166-22	Irregular expenditure on maintenance of Elevators	0.630

11.	167-22	Non-formation of internal audit wing by Telecom Foundation	0.000
12.	169-22	Short-contribution toward gratuity fund by Telecom Foundation	28.704
13.	170-22	Irregular expenditure on pay & allowances of TF employees without verification of degrees / educational documents	93.805
14.	172-22	Unauthorized utilization of services of TF employees by MoITT and non-recovery of pay & allowances	2.184
15.	173-22	Poor-management in TF School section resulting into non-recovery of school fee worth	8.355
16.	174-22	Irregular expenditure on repair & maintenance of HVAC	1.494
17.	175-22	Irregular expenditure on visit of lawyer to UK for seeking legal opinion	1.594
18.	176-22	Short-contribution in Employees Provident Fund and non-maintenance of separate accounts of each member	1.365
Total			393.610

Sr No	PDP No	Subject	Amount (Rs in million)
9.	UNIVERSAL SERVICE FUND (USF)		
1.	138-22	Un-justified payment of performance based bonus to officers	17.173
2.	139-22	Unjustified luxurious expenditure on rented premises	75.107
3.	144-22	Non-implementation of forensic audit committee recommendations on USF telecom infrastructure projects	0

4.	146-22	Unauthorized payment of audit & accounts allowance to USF employees	2.175
Total			94.455

ANNEXURE-B
(Para No. 3.6.1)

Non-recovery against delivered Stores

Sr No	PDP No	Organizations	Subject	Amount Outstanding (Rs)
1	179-22	Civil Works Organization	Non-receipt of payment against delivered store – USD 608,000 equivalent to Pak Rs 103.846 million	103,846,400
2	180-22	DG Procurement Army, RWP	Non recovery of balance amount	1,587,776
3	181-22	Civil Works Organization	Non-receipt of 70% balance payment against delivered store – USD 5,891,230 equivalent to Pak 1,006.222 million (1,006,222,084-918,079,495=88,142,589)	88,142,589
4	183-22	NITB Islamabad	Non-recovery of outstanding amount from NITB Islamabad - Rs 15.840 million	15,840,000
5	184-22	Headquarter Frontier Corps (South)- Turbat, `Baluchistan	Supply of additional items of store Rs 33.378 million beyond the scope of the contract and its non-realization	33,378,350
6	186-22	Director General, Department of State Services, Abuja Nigeria	Non-recovery of outstanding amount from DG SS, Nigeria – USD 898,800 equivalent to Pak Rs 153.515 million (153,515,040 - 124,942,245=28,572,795)	28,572,795
7	188-22	Bahrain Defense Force (BDF)	Non delivery of store resulting into non receipt of balance amount of USD	1,019,176,838

		Kingdom of Bahrain	5,967,077.51 equivalent to Pak Rs 1,019.177 million and expected loss of Rs 101.918 million as LD charges	
8	190-22	Signal Directorate, C&IT Branch, GHQ, Rawalpindi	Non-recovery of repair and maintenance bills of Land Mobile Radios & Software Defined Radios Rs 99.689 million	99,689,364
9	192-22	Signal Directorate, C&IT Branch, GHQ, Rawalpindi	Non-realization of outstanding amount against services rendered to LMBS - Rs 81.6055 million (81,604,622-24,587,243=57,017,379)	57,017,379
10	193-22	Capital Development Authority, Islamabad	Non-realization of outstanding amount against delivered stores from M/s. CDA - Rs 22.029 million	22,028,759
11	194-22	Inspector General of Police National Highways & Motorway Police	Delayed execution of project resulting into non-realization of amount Rs. 26.779 Million	26,779,679
12	203-22	Pakhtunkhwa Energy Development Organization (PEDO)	Non-realization of mobilization advance of Rs 187.868 million and short receipt of payment from PEDO worth - Rs 394.608 million	394,607,513
Total				1,890,667,442

**ANNEXURE-C
(Para No. 5.5.4)**

Un-authorized payment of salary

Year/Quarter	Name & Designation	Monthly Salary (Rs)	Period	Amount Drawn (Rs)
Y0Q1	Khurram Zafar, Investment Director	450,000	20-09-2-17 to 31-12-2017	1,350,000
Y1, Q1-4	-do-	450000	1-1-2018 to 31-12-2018	5,400,000
Y2, Q1-4	-do-	495,000	1-1-2019 to 31-12-2019	5,940,000
Y3, Q1-4	-do-	544,500	1-1-2020 to 31-12-2020`	6,534,000
Y0Q1	Senior Officer Social Media& Digital Marketing	90,000	20-09-2-17 to 31-12-2017	270,000
Y1, Q1-4	-do-	90,000	1-1-2018 to 31-12-2018	1,080,000
Y2, Q1-4	-do-	99,000	1-1-2019 to 31-12-2019	1,188,000
Y3, Q1-4	-do-	108,900	1-1-2020 to 31-12-2020	1,306,800
Total				23,068,800

ANNEXURE-D
(Para No. 6.5.4)

Non-recovery of outstanding dues

Sl.No	Name of Company	Period		GST	Total (Rs)
		July – Dec	Jan – June		
PDP No.115-22					
01	Interconnect Revenue	14,175,424	17,839,914	5,459,564	37,469,901
02	International Incoming through PTCL	741,107	1,085,799	-	1,826,906
03	Local Areas Connectivity Charges (LACC)	1,030,050	836,100	317,248	2,183,398
04	Co-Location charges	53,019,722	58,321,044	-	111,340,766
TOTAL		68,966,304	78,077,856	5,776,812	152,820,971

PDP No.320-22					
Sl. No.	Name of Station	Cov.Area Sq.ft	Rate per Sq.ft	Period	Rent Recoverable
01	Carrier Hall Model Town Bahawalpur	766	35	01.07.20 to 30.06.21	321,720
02	Carrier Hall Bahawalnagar	1158.5	35	-do-	486,570
03	PTCL rest house Fort Manro	5057	35	-do-	2,123,940
04	PTCL Exchange Fort Manro			-do-	
05	PTCL Exchange Building Rajanpur	61	35	01.07.20 to 31.10.20	8,540
Total					2,940,770
Grand Total					155,761,741

ANNEXURE-E
(Para No. 7.4.1)

Irregular award of contracts

Sr No	PDP No	Name of contractor	Subject	Project title	Total cost (Rs)
1	38-22	M/s. Premier Systems Ltd	Irregular award of contract for establishment of data centre Rs 397 million and consultancy charges Rs 5.5 million	Establishment of Data Centre for providing cloud based services in AJ&K and GB	397.000
2	39-22	M/s. NERA Telecom (Pak) Pvt. Ltd	Irregularities in award of contract relating to development project Rs 825 million	Upgradation and Expansion of Existing TDM Based backhaul Microwave with IP Based Backhaul Microwave Network in GB	825.000
3	40-22	M/s. Communicator's Globe (Pvt) Ltd	Irregular award of contract for the project titled expansion of broadband services in cities/towns of AJ&K and GB Rs 1,950 million	Expansion of broadband services in cities & town in AJ&K and GB	1,950.00
4	41-22	M/s. City Link Communicators	Irregular award of contract for the project titled up-gradation of transmission network and replacement of OFC in AJK&GB-Rs 334.730 million	up-gradation of transmission network and replacement of optical fiber cable AJ&K and GB	334.730
5	42-22	M/s. KEC Engineers & Contractors (Pvt.) Ltd	Irregular award of contract in non-transparent manner with defective evaluation – Rs 219.900 million	up-gradation of transmission network and replacement of optical fiber cable at AJ&K and GB	219.900
6	66-22	M/s. Communicator's Globe (Pvt) Ltd	Irregular award of contract for up-gradation of transmission network Rs 645 million	Up-gradation of Transmission Network and Replacement of Optical Fiber Cable (OFC) in AJ&K and GB	645.000
Total:					4,371.63